

THE FUTURE OF U.S.-EGYPTIAN RELATIONS

HEARING
BEFORE THE
SUBCOMMITTEE ON THE MIDDLE EAST
AND CENTRAL ASIA
OF THE
COMMITTEE ON
INTERNATIONAL RELATIONS
HOUSE OF REPRESENTATIVES
ONE HUNDRED EIGHTH CONGRESS
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THE FUTURE OF U.S.-EGYPTIAN RELATIONS

WEDNESDAY, JUNE 16, 2004

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON THE MIDDLE EAST
AND CENTRAL ASIA,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, DC.

The Subcommittee met, pursuant to call, at 3:35 p.m. in Room 2172, Rayburn House Office Building, Hon. Ileana Ros-Lehtinen (Chair of the Subcommittee) presiding.

Ms. ROS-LEHTINEN. The Subcommittee will come to order. I apologize so much for the wait and the interruption. We had a series of votes, and that is always unpredictable at best. Thank you so much for your patience, the panelists as well as the audience members.

I would like to thank our witnesses for attending our hearing today. It is not often we talk about Egypt in the Subcommittee, and that is unfortunate. Egypt is the cornerstone of our United States policy in the region, providing notable support and assistance to our Middle Eastern policies.

Egypt, having seen struggle and despair in its past, saw the benefits that peace with its neighbors can bring. Through this realization, Egypt has risen to become over the years the second largest recipient of United States foreign aid after Israel. United States military aid to Egypt totals over \$1.3 billion annually, and the U.S. Agency for International Development has provided over \$25 billion in economic and developmental assistance to Egypt between the years 1975 and 2002. This is a reflection of the importance that the United States places on Egypt's role in the Middle East, a role that we do not take for granted.

By the same token, however, Egypt must not rest on its laurels and assume that all is perfectly well, and that United States assistance is an automatic benefit. With stature comes responsibility. In Egypt, we see a nation of great potential, and to fully realize that potential, Egypt must reform itself economically and politically. It must not rely on American largesse to completely support its economy.

Some suggest that American assistance programs that spare the conditionality produce reluctance on the part of the Egyptian government to speed up the pace of economic reform. This reluctance, in turn, can make it even harder to promote investment policies and hurt the economy more. We must make sure that we are not spoiling the recipient of our aid programs.

As has been shown in other Middle Eastern countries, effects from stagnant economies, such as less employment opportunities, means less work for a growing workforce that gets younger every year. The ongoing massive decline in the living standards of the working class could further exasperate social tensions under conditions where poverty is widespread. Unemployment rates presently stand at 15 percent officially while the real rates are presumably much higher. The rate for urban young women is a full $\frac{1}{4}$ out of work. Less opportunity, therefore, means a more restless population, making that nation's youth susceptible to the all too easy promises of violent groups that are seeking to make change by terrorist means.

Within this context, we are concerned about the pace of political reform within Egypt and hope to see concrete progress in the areas of judicial reform, greater citizen participation, gender equality, religious freedom and independence of the media. Egypt has recently agreed to provide a much-needed commitment to security in Gaza in the face of Israel's decision to unilaterally withdraw from that area. In agreeing to provide 150 to 200 security advisors and technicians to the area, Egypt has undertaken a difficult step toward achieving the cause of peace. This is good news in a region often beset with bad and—such bad news. We must do all we can to prevent it.

I do, however, have two points of great concern that go beyond reforms in Egypt. They center on Egypt's military and security situation with its neighbors. The first concerns Egypt's military modernization program. Under our foreign military sales program, the United States has provided jet fighters, tanks, armored personnel carriers, Apache helicopters, anti-aircraft missile batteries, surveillance aircraft and other equipment. While military integration, regional access, and influence in military affairs remain important parts of our rationale for continuing military aid, certain questions regarding the purpose of an ongoing military buildup by the Egyptians must be raised.

One issue that has been of particular concern to Members of this Subcommittee is the reported Egyptian attempts to procure North Korean medium-range ballistic missiles. With these, Egypt could acquire the ability to strike targets in almost every country in the Middle East, northeastern Africa and southeastern Europe. Moreover, just last week it was reported that Turkey intercepted shipments on a Portuguese-flagged ship containing radio-controlled missiles, launchers and other weapons. What use does Egypt have for such weapons? If they were not destined for the Egyptian military, whom were the intended recipients? Were these weapons transferred by illicit means perhaps through the tunnels on the Egyptian-Gazan border?

And this brings up our second concern. Egypt must do more to stop the ongoing construction of tunnels on its side of the border with Gaza. It must also increase its effort to stop the import and the supply of weapons that are then transferred to Hamas and Hezbollah terrorists for use against innocent Israelis in vile terrorist attacks.

In summary, while Egypt is an important ally and a strong partner of the United States, we must take steps to ensure our assist-

ance and programs are indeed yielding the desired results. We must do more to promote acceleration in the face of political, economic and social reforms that would most benefit the Egyptian people. The United States must be more aggressive in engaging the Egyptians on these issues on an ongoing and consistent basis. It is time for reform commitments made by Egypt 5, 10, 15 years ago to be fulfilled, not only because they are linked to United States foreign assistance, but because they will help Egypt move forward toward political liberalization and economic prosperity, and we are all eager to begin this dialogue.

Our efforts, we must all understand, come out of friendship. We ask for these reforms with the best interests of Egypt in mind, and we believe that these requests are not unduly harsh. Between friends we can speak honestly, and today we intend to do so.

[The prepared statement of Ms. Ros-Lehtinen follows:]

PREPARED STATEMENT OF THE HONORABLE ILEANA ROS-LEHTINEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA, AND CHAIRWOMAN, SUBCOMMITTEE ON THE MIDDLE EAST AND CENTRAL ASIA

I would like to thank our witnesses for attending this important hearing. It is not often that we talk about Egypt in the subcommittee and that is unfortunate. Egypt is a cornerstone of U.S. policy in the region, providing notable support and assistance to our Middle Eastern policies.

Egypt, having seen struggle and despair in its past, saw the benefits that peace with its neighbors could bring. Through this realization, Egypt has risen to become, over the years, the second-largest recipient of US foreign aid, after Israel. U.S. military aid to Egypt totals over \$1.3 billion annually and the U.S. Agency for International Development has provided over \$25 billion in economic and development assistance to Egypt between 1975 and 2002.

This is a reflection of the importance the U.S. places on Egypt's role in the Middle East—a role we do not take for granted. By the same token, however, Egypt must not rest on its laurels and assume that all is perfectly well and that U.S. assistance is an automatic benefit. With stature comes responsibility.

In Egypt, we see a nation of great potential and to fully realize that potential, Egypt must reform itself, economically and politically. It must not rely on American largesse to completely support its economy.

Some suggest that American assistance programs that spare the conditionality produce reluctance on the part of the Egyptian government to speed up the pace of economic reform. This reluctance, in turn, can make it even harder to promote investment policies and hurt the economy more. We must make sure that we are not "spoiling" the recipient of our aid programs.

As has been shown in other Middle Eastern countries, effects from stagnant economies such as less employment opportunities, means less work for a burgeoning workforce that gets younger every year.

The ongoing massive decline in the living standards of the working class and could further exasperate social tensions under conditions where poverty is already widespread. Unemployment rates presently stand at 15 percent officially, while the real rates are presumably much higher. The rate for urban young women is a full one-quarter out of work.

Less opportunity, therefore, means a more restless population, making that nation's youth susceptible to the all too easy promises of violent groups seeking change by terrorist means.

Within this context, we are concerned about the pace of political reform in Egypt, and hope to see concrete progress in the areas of judicial reform, greater citizen participation, gender equality, religious freedom, and independence of the media.

Egypt has recently agreed to provide a much needed commitment to security in Gaza, in the face of Israel's decision to unilaterally withdraw from there. In agreeing to provide 150–200 security advisors and technicians to the area, Egypt has undertaken a difficult step toward advancing the cause of peace.

This is good news in a region often beset with bad such news, and we appreciate it. I do, however, have two points that are of great concern that go beyond reform efforts in Egypt. They center on Egypt's military and security situation vis-à-vis its neighbors. The first concerns Egypt's military modernization.

Under our Foreign Military Sales programs, the U.S. has provided jet fighters, tanks, armored personnel carriers, Apache helicopters, anti-aircraft missile batteries, surveillance aircraft, and other equipment.

While military integration, regional access, and influence in military affairs remain an important part of our rationale for continuing military aid, certain questions regarding the purpose of an ongoing military buildup by the Egyptians must be raised.

One issue that has been of particular concern to Members of this Subcommittee is the reported Egyptian attempts to procure North Korean medium-range missiles. With these, Egypt could acquire the ability to strike targets in almost every country in the Middle East, North Eastern Africa and South Eastern Europe.

Moreover, just last week, it was reported that Turkey intercepted shipments on a Portuguese-flagged ship containing radio-controlled missiles, launchers, and other weapons. What use does Egypt have for these weapons?

If they were not destined for the Egyptian military, who were the intended recipients? Were these weapons transferred by illicit means, perhaps through the tunnels in Rafah at the Egyptian-Gaza border?

And this brings up my second concern. Egypt must do more to stop the ongoing construction of tunnels on its side of the border with Gaza. It must also increase its efforts to stop the import and supply of weapons that are then transferred to Hamas and Hezbollah terrorists for use against innocent Israelis in vile terrorist attacks.

In summary, while Egypt is an important ally and partner for the U.S., we must take steps to ensure that our assistance and programs are yielding the desired results. We must do more to promote acceleration in the pace of economic, political, and social reforms that would most benefit the Egyptian people.

The U.S. must be more aggressive in engaging the Egyptians on these issues on an ongoing and consistent basis. It is time for reform commitments made by Egypt 5, 10, 15 years ago to be fulfilled, not only because they are linked to U.S. foreign assistance, but because they will help Egypt move forward toward political liberalization and economic prosperity.

I am eager to begin this dialogue. Our efforts, we all must understand, come out of friendship. We ask for these reforms with Egypt's best interests in mind and we believe our requests are not too unduly harsh. Between friends, we can speak honestly, and today we intend to do so.

Ms. ROS-LEHTINEN. And I would like to yield to the Vice Chair of our Subcommittee, Mr. Steve Chabot, for his opening remarks.

Mr. CHABOT. I will be very brief.

I want to thank the Administration officials who are here this afternoon, and thank you for holding this important hearing, and look forward to hearing the testimony here this afternoon.

Ms. ROS-LEHTINEN. Thank you so much.

It is now my pleasure to introduce our panelists. Ambassador David Satterfield is the Deputy Assistant Secretary of State for Near Eastern Affairs. He has served as Ambassador to Lebanon from September 1998 to June 2001. The Ambassador also served on the National Security Council staff from 1993 to 1996 as Director for Near Eastern and South Asian Affairs, and held the position of Director of the Department of State's Office of Israel and Arab-Israeli Affairs from 1986 to 1988. And we welcome the Ambassador for being here today.

Next we will hear from James Kunder, who is the Deputy Assistant Administrator in the Bureau for Asia and Near Asia at the U.S. Agency for International Development. Before assuming this position, he served as the director for relief and reconstruction in Kabul. He has served in other positions at USAID and in the private sector.

I would like to thank our witnesses and welcome them to our Subcommittee. And your statements will be made a part of the record, and feel free to summarize it for us.

Mr. Ambassador.

**STATEMENT OF DAVID M. SATTERFIELD, DEPUTY ASSISTANT
SECRETARY, BUREAU OF NEAR EASTERN AFFAIRS, UNITED
STATES DEPARTMENT OF STATE**

Mr. SATTERFIELD. Thank you very much for offering this very timely opportunity to speak with you and the Members of the Committee about the future of Egyptian-United States relations. This is a relationship that has been central to U.S. efforts over the past 30 years to promote peace, stability, democracy and economic development in the Middle East.

Egypt led the Arab world to its first peace treaty with Israel 25 years ago. Today Egypt continues to play an indispensable role in our efforts to bring peace to that troubled region. More broadly, the nations in the Middle East, including Egypt itself, are facing real challenges to bring economic, political and social modernization and progress to the people. We want to help Egypt to be a regional leader in that effort, and the partnership we have developed with Egypt over the past decades will play a critical role in that process.

Our strategic engagement with Egypt has enabled us to create and sustain a broad and deep bilateral relationship with the Arab world's most populous country. Our partnership has promoted peace and stability, and helped sustain and advance Israeli-Egyptian relations, and has helped us fight the war on terror. It is not always easy. We have at times had disagreements on approaches over the years. Yet in the end what has sustained our relationship is a clear sense that the interests of both our countries are served by a partnership that addresses issues very candidly and in a spirit of cooperation rather than confrontation.

I would like to focus briefly on two critical issues: Egypt's role in finding a way forward on Israel-Palestinian peace, and our support for Egypt's domestic reform efforts.

The search for a just and comprehensive peace in the Middle East remains a cornerstone of a bilateral relationship with Egypt. Egypt has been an active partner for the United States and the parties themselves in developing the road map for Middle East peace, in pushing forward its implementation, and in coordinating with us regional efforts to support it. Egypt's diplomatic efforts over the past year have been increasingly active and constructive, and we welcome the role President Mubarak has played with the Palestinian leadership in recent months, weeks and indeed days. Egypt's voice has been clear and consistent with the Palestinian Authority on the absolute need to end armed attacks on Israelis, and Egyptian envoys at very senior levels have pressed Palestinian leaders and Palestinian factions to implement a unilateral, comprehensive end to violence and terror.

We have encouraged Egypt strongly to engage actively with the Government of Israel for planning for Gaza disengagement. Egypt has worked directly and very constructively with Israeli political and security officials in planning for pre- and post-disengagement cooperation with Palestinian security forces. Egypt's public commitment to assist with the reorganization and retraining of Palestinian police and security units has been critical to building Israeli confidence that disengagement as the Prime Minister has proposed can proceed without threat to Israeli security.

While the peace process often dominates headlines, political and economic reform have also been a focal point of our relations over the past several years. President Bush has made clear our expectation that Egypt will be a leader in strengthening democratic institutions and political participation in civil society. The Egyptian government has taken some important steps including creating a National Council on Human Rights, repealing military decrees and supporting the Alexandria Declaration's strong call for reform. However, we remain deeply concerned over restrictions in Egypt on basic political liberties and religious rights, treatment of prisoners, and continued reliance on the Emergency Law.

On the economic side, we have tailored our assistance programs in a dramatic and significant overhaul to emphasize reform and real economic development, and there have been some important successes. For example, in our just concluded negotiations on supplemental economic assistance, Egypt has agreed to tighten the floating of the pound; to replace WTO inconsistent apparel tariffs, a step already taken; to sell the state-owned stake in one of its joint venture banks; and to advance budget transparency through publishing of a public expenditures review. These changes will improve Egypt's economic system. They have been supported by Egyptian reformers. And we disbursed recently \$300 million in grants assistance from the 2003 supplemental conditioned on an Egyptian commitment to continue making important reforms on foreign exchange and fiscal policy.

We know Egyptians have a strong desire for reform both within government and civil society, and we believe Egypt can do much more. As agreed to at last week's G-8 summit, we stand ready to help the Government of Egypt and the Egyptian people as they have their own debate on how best to move forward.

Thank you very much again for the opportunity to be here today. I would welcome any questions you may have.

Mr. CHABOT [presiding]. Thank you Mr. Ambassador.

[The prepared statement of Mr. Satterfield follows:]

PREPARED STATEMENT OF DAVID M. SATTERFIELD, DEPUTY ASSISTANT SECRETARY,
BUREAU OF NEAR EASTERN AFFAIRS, UNITED STATES DEPARTMENT OF STATE

Thank you Madame Chairwoman for providing me with the opportunity to speak with you about the future of U.S.-Egyptian relations. As Presidents Bush and Mubarak reminded us during their April 12 Summit in Crawford, Texas, Egypt and the United States have enjoyed strategic relations for over three decades. This relationship gained enhanced relevance when the late President Anwar el-Sadat and late Israeli Prime Minister Menachem Begin signed the Egypt-Israel Treaty of Peace under our auspices at Camp David. The relationship has been central to U.S. efforts over the last thirty years to promote peace, stability, democracy, and economic development in the region. The past quarter-century has borne witness to the reality that the strength of U.S.-Egyptian relations has well served both our countries' interests. We now look to Egypt to provide similar leadership in economic, political, and social modernization in the region. Indeed, through its support for the Alexandria conference, in President Mubarak's statements in Crawford, TX, and in its support for Arab League statements on needed change, Egypt is already showing leadership in this regard. We look forward to a vibrant and constructive dialogue with Egypt not just on liberalization within Egypt, but across the Broader Middle East.

STRATEGIC ENGAGEMENT AND A STRONG BILATERAL RELATIONSHIP

Our policy approach toward Egypt is strategic and focused on advancing U.S. political, economic, and military objectives, justifying our annual assistance program of just under \$1.9 billion in FY 2004. The Egyptian-American partnership has pro-

moted peace and stability, while supporting positive change in the Middle East, for thirty years. In addition to sustaining and advancing Israeli-Egyptian relations, a key goal since Camp David, our relationship and assistance programs have helped Egypt play a role in our broader efforts with respect to Iraq, promotion of regional economic activity, and prosecution of the War on Terrorism.

Our strategic engagement with Egypt has also enabled us to create and sustain a broad and deep bilateral relationship with the Arab world's most populous country. The United States has followed the steps toward political and economic reform taken by Egypt over the past few years, as well as the ongoing debate on reform in different sectors of Egyptian society. We have reviewed and restructured our foreign economic assistance program to Egypt, and the Government of Egypt has both agreed to and implemented many economic reforms over the past year.

The U.S.-Egyptian strategic relationship is a mature and complex one that encompasses many facets. I would like to focus my comments today on two main, albeit diverse, areas: Egypt's role in the peace process and our support for its domestic reform efforts.

Middle East Peace Process

The search for a just and comprehensive Middle East peace remains a cornerstone of our bilateral relationship with Egypt. Egypt in turn has consistently reiterated its own commitment to President Bush's vision of two states, Israel and Palestine, living side by side in peace and security. Egypt's relationship with Israel has been a foundation of that effort, and its role continues to be indispensable, never more so than today.

Egyptian-Israeli Cooperation

Egypt has been an active partner for the United States and the parties themselves in developing the roadmap for Middle East peace, in pushing forward its implementation, and in coordinating regional efforts to support it. Over the past year, we have seen Egypt take an increasingly active and constructive role with the parties, particularly in identifying a path forward on the crucial security issues that have stalled progress on the roadmap. Egypt's diplomatic efforts have been strong, and we welcome the role President Mubarak has played with the Palestinian leadership in recent months. Egypt's voice has been clear and consistent with the Palestinian Authority on the need to end armed attacks on Israelis, and Egyptian envoys have pressed Palestinian factions to implement a unilateral, comprehensive end to violence. Israeli FM Shalom's successful visit to Cairo in May was another step toward a closer, more cooperative bilateral relationship with the Government of Israel, and will help develop the atmosphere of trust and confidence that will be crucial if we are to move forward on roadmap implementation. We welcome Presidential Adviser Al-Baz's statement that intensified Egyptian-Israeli cooperation provides the right context for Egypt to consider the return of its Ambassador to Tel Aviv.

Egyptian Role in the Gaza Withdrawal Plan

Prime Minister Sharon's proposal for Gaza disengagement provides a historic opportunity to move toward the roadmap's two state vision. Security issues will be crucial to the success of this disengagement plan, and under any scenario the Egyptian role will be central. We have encouraged Egypt to engage actively with the Government of Israel in planning for disengagement. Egypt has worked directly and constructively with Israeli security officials in planning for pre- and post-disengagement cooperation with Palestinian security forces. Egypt's public commitment to assist with the reorganization and retraining of Palestinian police and security units has been critical to building Israeli confidence that disengagement can proceed without additional threats to Israel's security. In particular, Egypt has committed to the roadmap's goal of consolidating Palestinian numerous security services into three entities reporting to accountable leadership, and to providing Egyptian security advisors to work with their Palestinian counterparts on the ground to achieve this. The Palestinian Authority has welcomed Egypt's role. Egypt is the indispensable Arab voice in underscoring to the Palestinian Authority the requirement for fundamental reform of the security organs.

Rafah Border Tunnels and Weapons Smuggling

Egypt has begun working with the Government of Israel to put in place the security arrangement that will make disengagement possible. The Gaza-Egypt border is critical in this regard. Egypt has had important successes in combating long-established smuggling routes into the West Bank, including tunnels. The GOE shut down 32 tunnels in 2003 and long ago cleared sensitive portions of the border area spanning the tunneling area. However, we believe more can and should be done to enhance border security. Due to operational inefficiencies, certain personnel and equip-

ment restrictions stemming from the Israel-Egypt Peace Treaty, and coordination issues, Egyptian efforts to deal with tunnel construction and operation have not been as effective as possible. To address these concerns, Egypt and Israel are conducting discussions on how best to augment the lightly armed police forces now present on the Gaza-Egypt border.

Egyptian-Israeli Economic Ties

While security issues dominate Egyptian-Israeli relations, economic issues continue to play an important role in consolidating and strengthening the bilateral relationship. While Egyptian-Israeli trade has not by any means reached its great potential, important strides have been made on bilateral economic issues over the past several months. An historic deal to export natural gas from Egypt to Israel through an Egyptian-Israeli joint venture over the next 15 years could soon come to fruition. At the same time, important progress has recently been made in discussions between the two countries over the terms and conditions for developing Qualifying Industrial Zones (QIZ) like those that exist in Jordan. Qualifying goods from these zones will be able to enter the U.S. without tariffs. We will continue to work closely with both sides, in close cooperation with USTR, to push these discussions forward.

Iraq

Egypt and the United States share the goal of an independent, unified, democratic, peaceful, and prosperous Iraq. Egypt has offered publicly to provide training in any field to Iraqis, and has so trained new Iraqi diplomats, doctors, nurses, and other Iraqi civil servants. It is also exploring ways to train Iraqi police. Egypt is also playing an important role in the ongoing reconstruction of Iraq, as Egyptian firms are commercially active in Iraq. President Mubarak immediately welcomed the selection of new Iraqi President Sheikh Ghazi Yawer and Prime Minister Allawi upon their selection.

Political Support

President Mubarak immediately sent congratulatory letters to new Iraqi President Sheikh Ghazi Yawer and new Prime Minister Allawi upon their selection, stating that Egypt "hoped that the new Iraqi cabinet would succeed in realizing the Iraqi people's aspirations for sovereignty and independence." We believe that the rapid GOE response was meant to show Egypt's strong support for the new Iraqi leadership and its efforts to both end its occupation and ensure a secure transition to sovereignty. Egypt also played a critical role in ensuring that the Iraqi Governing Council, when first introduced to the Arab League, was accepted as a participating member.

Global War on Terrorism

Egypt is an active partner in the global war against terror and the U.S. and Egyptian Governments cooperate closely on a broad range of counter terrorism and law enforcement issues. No one has to warn Egyptians about the cost of terrorism. The Government of Egypt knows first-hand that terrorism threatens every civilized nation, requiring all nations to respond.

Egypt has fought its own domestic war on terrorism against radicalism and has been highly successful. Strong American and Egyptian cooperation has paid dividends in the global war on terror. For example, we have established a U.S.-Egypt Counter Terrorism Joint Working Group, which held its first meeting in July 2003. In addition, Egypt was very supportive of our efforts during Operation Enduring Freedom and the GOE still maintains a Field Hospital in Bagram, Afghanistan, that serves the needs of thousands of Afghans and advances coalition efforts in that theater.

Forward Strategy for Freedom

President Bush, along with the other leaders of G8 countries, on June 9 launched the Partnership for Progress and a Common Future with the Region of the Broader Middle East and North Africa (BMENA). Central to this new Partnership will be a "Forum for the Future," which will serve as a vehicle for listening to the needs of the people of the region in an open and enduring dialogue. This important effort will build on calls for political, economic and social reform from the region, and on existing bilateral and multilateral cooperation programs, such as the U.S.-Middle East Partnership Initiative, the U.S.-Middle East Free Trade Area Initiative, the Euro-Mediterranean Partnership ("Barcelona Process"), and the Japan-Arab Dialogue Initiative.

Political Reform

Political and economic reforms have been a focal point in our bilateral relations with Egypt for several years. Our dialogue is marked by candor, as well as by a mutual commitment to ensure that US assistance is tailored to support more effective projects that reach the Egyptian grassroots.

On the political side, President Bush has expressed his desire to see Egypt “set the standard in the region for democracy by strengthening democratic institutions and political participation,” and we are consistently pressing the need for reform on human rights, religious freedom, and on democracy and governance. President Mubarak has expressed his own commitment to reform, including recently in Crawford, Texas. We believe Egyptian officials share our view that liberalization across the spectrum in Egypt is good for stability there, good for the people, and can be managed in a way that boosts opportunity and destroys the root causes of terrorism. The Egyptian Government has taken some important steps on reform, such as creating the National Council on Human Rights, repealing several military decrees, decriminalizing libel, and supporting a regional conference at the Alexandria Library that issued a bold declaration favoring reform. Over the past two years we have also seen the abolition of state security courts and the hard labor penalty. These reforms are steps in the right direction.

Over the past year, internal pressure for reform has increased from several directions: reformers in the media and political parties, activists in civil society, and popular pressure. We have cautiously welcomed several steps the Government has taken, but remain deeply concerned over restrictions on basic political liberties and religious rights, treatment of prisoners including routine use of torture, and continued reliance upon the Emergency Law. We continue to stress the need for reform to our Egyptian counterparts and emphasize that true stability will only result from a free and open society where citizens’ rights are respected.

We are currently engaged with the Government of Egypt in substantive discussions around the proposed programming of USAID administered economic support funds for programs related to democracy and good governance issues. Egypt has responded to our proposal on future direct USG funding of NGOs for democracy and governance programming in Egypt. We look forward to continuing to consult with the GOE on this topic. The GOE has agreed to our suggestions to focus on criminal court reform and legal education reform; media training; and support for women’s and children’s legal rights. Meeting with the President in Crawford on April 12, 2004, President Mubarak embraced “widen(ing) the scope of democracy, freedom, and political participation in a vibrant and dynamic civil society.” How we can do this most effectively will continue to constitute a core component of our bilateral dialogue.

Economic Reform

According to analysis in the Arab Human Development Report, the Arab world has not kept pace with the economic and political progress of our time. In Egypt, basic economic challenges—stagnant real wages, a growing debt burden, and unemployment well in excess of official estimates—require a renewed and sustained commitment to real economic reform. Without additional economic reforms to support the transition to a more market based economy, Egypt is unlikely to achieve the 5.5%–6% annual Gross Domestic Product growth required to absorb the 600,000 to 800,000 new job seekers entering the workforce each year. To its credit, Egypt has already launched a debate over how best to spur growth through increased trade and investment, stronger capital markets, more jobs and better skilled workers.

Our bilateral economic relationship with Egypt is focused on delivering assistance through three main programs: programmatic assistance (including aid projects and technical assistance in health, education, infrastructure, etc.); the Commodity Import Program, which funds private sector imports of American products; and the Development Support Program, or DSP, which provides direct budgetary support to the GOE in return for achievement of specific agreed-upon economic benchmarks. These programs have helped improve Egypt’s basic infrastructure, improve the country’s standard of living, and assisted its emerging transition to a more market-oriented economy.

The Government of Egypt also understands the importance the U.S. attaches to economic reform and it has taken a number of concrete economic reform steps to improve the financial sector, governmental management and fiscal reform, and the business climate. These steps include:

- Floating the Egyptian pound and a commitment to tighten the pound float;

- Replacing WTO-inconsistent apparel tariffs;
- Selling the state-owned stake in one of the joint-venture banks;
- Committing to the concept of privatization of one state bank;
- Included benchmarks for transparency and trade in the supplemental aid package for Egypt, including a Public Expenditures Review by the World Bank and the release of the Executive Summary of its budget.

There is, however, more that remains to be done. Both the Egyptian government and the USG agree that a dynamic financial sector is especially critical to the further development of the country. Egypt's banking system remains dominated by state-owned banks that channel funds to state-owned enterprises, depriving viable private firms of credit. Putting more of the banking sector into the hands of the private sector is a key part of our joint reform strategy. We have been discussing a program of assistance for financial sector reform intensively with the GOE over the past year. Our proposed program, encapsulated in a Memorandum of Understanding (MOU) on financial sector reform that we have been discussing with the GOE, would include tying a substantial portion of our \$200 million annual DSP funding, over several years, to the achievement of specific agreed-upon financial sector reforms; it would include the provision of increased technical assistance to support such a reform process. In December 2003, the GOE told us that it would be developing a plan for comprehensive financial sector reform that it hopes to present to us soon, and which should provide the basis for further discussions on the MOU.

Reform efforts on banking, taxation, Egypt's import-export regime, protecting intellectual property rights, countering money laundering, and other business environment issues are also underway. Seeing the reform program through to its completion is critical for the future of Egypt's economy; both potential investors and Egyptian job seekers demand it.

After more than a year of negotiations, we disbursed \$300 million in grant assistance to the GOE on June 3 as part of the Emergency Wartime Supplemental Appropriations Act of 2003. We conditioned this assistance to the GOE on its achievement of certain economic reforms and a commitment to improve the efficiency of the foreign exchange market, the business climate, and the transparency in fiscal policy. The Egyptian and U.S. governments believe that completing these reforms will make a positive difference in the lives of ordinary Egyptians. \$2 billion in loan guarantees could also be made available to the GOE in three separate tranches, contingent on payment of the U.S. budget cost associated with these guarantees and implementation of economic reforms that will be monitored through review of agreed-to benchmarks.

The final piece of our assistance program is the Commodity Import Program (CIP), which funds Egyptian private sector imports of U.S. products. Congress has annually earmarked \$200 million from the economic assistance appropriation for Egypt to the CIP. We understand that your committee would like to see changes in this program and that the preliminary results of a recent General Accounting Office study found that it could be revised to more effectively enhance Egypt's investment environment and foster a more competitive private sector. We are also thinking about ways to make the program more effective and will continue to consult with your committee and other appropriate Congressional committees as we move forward in this effort. Historically, the CIP has benefited approximately 2000 U.S. exporters, thereby demonstrating strong domestic support for this program.

In terms of bilateral economic relations, Egypt is a hub of regional economic activity and both a center of entrepreneurship in the region and a potential source of talent for economic activity. It is also the region's most populous nation and as such, a significant market for U.S. exports—\$2.7 billion in 2003. In fact, the United States is Egypt's second largest trading partner. As such, we are committed to expanding our trade ties, and Egypt and the U.S. remain interested in pursuing a Free Trade Agreement. Getting to the point of FTA negotiations, however, will depend first and foremost on Egypt showing its readiness for an FTA through high-level statements in support of an FTA and concrete reforms that prepare Egypt for the demands of a free-trade arrangement with the U.S. In the meantime, we are working to expand our bilateral economic ties and help lay the groundwork for an FTA through our Trade and Investment Framework Agreement (TIFA).

In May 2003, the President set out his vision of establishing a U.S.-Middle East Free Trade Area (MEFTA) by 2013. The United States is using its Trade and Investment Framework Agreements with nine countries in the region, including Egypt, to accelerate the development of bilateral trade and investment relations. In addition, the United States has signed an agreement with Morocco and completed Free Trade Area (FTA) negotiations with Bahrain. The United States already has FTAs in the region with Israel and Jordan.

Egypt's participation in MEFTA will play an important part in the success of this initiative. Although Egypt's progress on trade liberalization has been slow and we have seen several setbacks to the bilateral trade relationship over the past 18 months, we are continuing to support Egypt's efforts to undertake the further economic reform and trade liberalization measures needed to help the Egyptians move towards Free Trade Area negotiations with us. Such negotiations would advance the Administration's goal of creating a MEFTA within ten years.

THE FUTURE OF OUR RELATIONSHIP

Despite the many challenges we face in our bilateral partnership, we share a fundamental vision for the region. That vision calls for greater economic opportunity and political participation, a peaceful and equitable end to the Arab-Israeli conflict, a democratic and economically vibrant Iraq, and the defeat of extremism. We must also look beyond our traditional dialogue to create new linkages between us, between our people, through business, through culture, and through shared educational experiences.

As we confront today's challenges—from Iraq, to the global war on terrorism, to the Israeli-Palestinian conflict—it is clear that there has never been a time that our partnership with Egypt mattered more.

I appreciate your taking the time to hear about our views on the strategic position that Egypt occupies in the Middle East, its security relationship with us, our efforts aimed at promoting political and economic reforms, the current status of our assistance programs, and the steps we are taking to address these issues. I welcome any questions that you may have.

Mr. CHABOT. Mr. Kunder.

STATEMENT OF JAMES KUNDER, DEPUTY ASSISTANT ADMINISTRATOR, BUREAU FOR ASIA AND THE NEAR EAST, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. KUNDER. Thank you, Mr. Chairman. We appreciate the opportunity to testify today and very much appreciate the interest of the Subcommittee on this topic, as the Congresswoman said earlier. Sometimes the important relationship with Egypt does not draw widespread attention, so we appreciate the hearing and also the letter from Chairman Hyde and Chairman Ros-Lehtinen to the Egyptian government on these important topics.

Because I was asked specifically by the Committee to review USAID's Report on Economic Conditions in Egypt in 2003, I have a relatively long and detailed statement, and I will summarize very briefly a couple of the highlights of that statement.

Our strategic objective in Egypt is a globally competitive economy that benefits all Egyptians equitably, and that is the sum total of the projects we are trying to institute. When USAID launched our program in Egypt in 1975, Egypt was just beginning to move away from 40 years of state intervention and tight control of resource allocation. The economy was at a standstill. Much of the physical infrastructure had deteriorated. Electricity and phone service was unreliable, and the streets of major cities were often flooded with sewage. Technical and scientific ties with the West were nonexistent. Agriculture productivity was low, resulting in food shortages, and basic health and welfare services were poor.

What has been achieved with the \$25 billion investment of U.S. taxpayer dollars that Congresswoman Ros-Lehtinen referred to earlier? Now 99 percent of all Egyptians have access to reliable electricity; 5.2 million have telephones; 22 million Egyptians have access to clean water and sanitary sewage collection; Domestic food production has increased 119 percent; primary school enrollment has increased 61 percent; and the testimony goes on to list such

improvements in the lives of Egyptians that are attributable to the United States taxpayer investment over the past 25 years.

As the Committee has read in this year's annual report on economic conditions in Egypt, the greatest threat to Egypt's stability may be popular frustration with recent economic performance and a persistent lack of economic opportunity, as Ambassador Satterfield referred to earlier. About a third of the Egyptians still live below the poverty line. The real rate of unemployment may be as high as 25 percent, and the economy is simply not creating enough jobs for the estimated 750- to 800,000 new entrants annually to the job market.

The Government of Egypt has implemented reforms in these areas, but the pace of reform has been too slow in recent years. As a result, Egypt continues to suffer from cumbersome customs and business registration processes, a growing fiscal deficit, a foreign exchange regime that impedes business, lagging privatization, lack of transparency and an education system that does not train young Egyptians in skills that are actually needed to contribute to their country's economic growth.

Finally, Egypt is simply not attracting enough foreign direct investment to stimulate the economy. In the past year, there have been some bright spots. The Government of Egypt has continued to make significant progress on intellectual property rights, money laundering and export promotion regulation. It has taken steps to comply with international trade standard requirements: The country has acceded to the Basic Telecommunications Agreement and Information Technology Agreement, has ratified a patent cooperation treaty, and taken other important steps to stimulate the economy.

The U.S. Government through USAID has provided technical assistance and worked with the Egyptians to conclude all of these actions, which plays an important role in improving Egypt's economic environment and export prospects. Negotiation of a free trade agreement with the European Union was also concluded and ratified by most of the EU member countries. All of these accomplishments will serve to move Egypt more into the global marketplace, stimulate exports and investments, all of which are sorely needed to kick-start economic growth, and begin to address the lack of jobs, and improve the standard of living to tackle the growth in the number of discouraged out-of-work youth.

In short, Mr. Chairman, there have been important steps taken, but many, many important steps that remain ahead of us. And I would be glad to answer questions on those topics or other issues of interest to the Committee.

[The prepared statement of Mr. Kunder follows:]

PREPARED STATEMENT OF JAMES KUNDER, DEPUTY ASSISTANT ADMINISTRATOR, BUREAU FOR ASIA AND THE NEAR EAST, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Thank you, Mr. Chairman, for inviting me to testify at this hearing. I appreciate this opportunity to share with you progress in our economic assistance program in Egypt and to discuss with you possible future directions for what is still one of our largest programs in the world.

It is important to talk a little about the history of the Egypt program to better understand what we see as its future direction. USAID first opened a mission in Egypt in 1975. After the Camp David Accords in 1979, economic assistance funding

was earmarked annually at \$815 million until 1998 when funding began to decline at a rate of \$40 million annually. To date, the U.S. has provided over \$26 billion to Egypt in economic assistance. The program always has been driven by both political and developmental agendas—political in the sense that the U.S. Government wants to support a staunch ally in the Middle East peace process, and developmental in the sense that we want to see the resources used in a way that promotes positive change and improvements to the lives of all Egyptians. These goals, while often complementary, can be divergent at times.

When USAID launched our program in 1975, Egypt was beginning to move away from 40 years of state intervention and tight control of resource allocation. The economy was at a standstill, much of the physical infrastructure had deteriorated—electricity and phone services were unreliable and the streets of major cities were often flooded with sewage, technical and scientific ties and relations with the West were nonexistent, agricultural productivity was low resulting in food shortages, and basic health and welfare services were poor. The Suez Canal, a major trade artery and source of foreign exchange had been heavily damaged and closed as a result of the conflict with Israel.

In the 1970s, USAID concentrated on the immediate needs of the economy: reopening the Suez Canal, expanding and rehabilitating electric power and telecommunications, improving water and wastewater management and improving grain storage and port facilities. Beginning in the 1980s, USAID broadened its program to address improving agriculture, education and health and rebuilding Egypt's industrial and commercial base. In the 1990s, USAID's program began to focus on macro-economic policy reform and privatization, and also added activities aimed at strengthening the systems of governance, improved cost recovery and sustainability of utilities, and mitigation of air and water pollution.

What has been achieved with this huge assistance program? U.S. assistance program touches the lives of every Egyptian. As a result of our investment:

- 99% of all Egyptians have access to reliable electricity and 5.2 million have phones;
- 22 million Egyptians in 11 governorates have access to clean water and sanitary sewage collection;
- domestic food production has increased 119%, which translates as 36% more domestically produced food for each Egyptian;
- primary school enrollment has increased by 61% in the past 20 years, and the gender gap in enrollment has dropped from 21% in 1979 to 6% at the end of the 1990s;
- infant and child mortality rates have decreased by more than 65% since the late 1970s, with rates for full vaccination increasing to 92% of all children;
- maternal mortality decreased by 50% in the 1990s and the average Egyptian woman today voluntarily chooses to have approximately 3 children, down from about 6 in the 1980s, resulting in 6 million fewer young Egyptians, a significant statistic in a country with very limited water resources and population densities that can exceed 33,000 per square kilometer in parts of Cairo;
- Micro and small business lending programs supported by USAID have provided more than \$750 million in loans to over 600,000 borrowers with a negligible default rate. USAID estimates that this financing has allowed micro-enterprises to hire over 300,000 additional employees;
- 90% of all gasoline sold in Egypt is now unleaded and more than 25,000 vehicles have been converted to clean-burning compressed natural gas.

These are significant achievements which have vastly improved the lives of all Egyptians. Serious challenges remain, however, which must be addressed if Egypt is to remain stable and begin to provide hope for its citizens.

CURRENT SITUATION:

Economic Growth:

As you have read in this year's annual "Report on Economic Conditions, 2003," the greatest threat to Egypt's stability may be popular frustration with recent economic performance and a persistent lack of economic opportunity. About a third of Egyptians still live below the poverty line, the real rate of unemployment may be as high as 25%, and the economy is not creating nearly enough jobs for the estimated 750–800,000 annual new entrants to the job market.

The Government of Egypt (GOE) has implemented reforms in these areas, but the pace of reform has been too slow in recent years. As a result, Egypt continues to

suffer from cumbersome customs and business registration processes, growing fiscal deficit, foreign exchange regime that impedes business, lagging privatization, lack of transparency and an education system that does not train young Egyptians in skills they will need to contribute to their country's economic growth. Egypt is simply not attracting enough foreign direct investment to stimulate the economy.

In the past year, there have been some bright spots. The GOE has continued to make significant progress on intellectual property rights, money laundering and export promotion regulation. It has taken steps to comply with international trade standard requirements: the country has acceded to the Basic Telecommunications Agreement and the Information Technology Agreement, ratified a Patent Cooperation Treaty, and ratified the International Labor Organization's Convention on Agricultural Occupational Health and Safety. Egypt will shortly be included in the IMF's Special Data Dissemination Standards grouping of countries, as a result of its making publicly available timely and accurate economic and financial data. USAID has provided technical assistance and worked with the Egyptians to conclude all of these actions, which play an important role in improving Egypt's investment environment and export prospects. Negotiation of a free trade agreement with the European Union was concluded and ratified by most of the EU member countries. All of these accomplishments will serve to move Egypt more into the global market place and stimulate exports and investment, both of which are sorely needed to kickstart economic growth and begin to address the lack of jobs and improve the standard of living to tackle the growth in the number of discouraged, out of work, youth.

Education:

Egypt's education system is not producing graduates with skills suited to today's workplace. The average low-income Egyptian, particularly in rural areas, has finished five or fewer years of basic education. Literacy rates are low especially for women—while 81.5% of Egyptian men are literate, only 58.2% of Egypt's women can read and write. The GOE spends at least 13% of its budget on the formal education system but the system is poorly managed and outdated. In the past few years, many Egyptians have begun to complain publicly about their education system, with those that can afford it putting their children into private schools. The lack of a sufficiently educated population is a real constraint on Egypt's economic development. Egypt cannot compete with countries in Asia with much higher literacy rates. USAID, having obtained the agreement of the Ministry of Education, has successfully demonstrated for the first time in Alexandria the feasibility and effectiveness of introducing education managed by and responsive to local communities. A total of seven governorates are now working with us on implementing the reforms adopted in Alexandria.

Health:

As I have mentioned above, there have been enormous achievements in reducing population growth, improving the survival of mothers, infants and children and improving primary health care in Egypt. However, the major issue facing Egypt in the health sector remains population growth. Egypt's growing population—1.7 million births each year—strains natural resources, especially water. About 70% of the population is under age 40, and 38% is under age 15. This challenges the provision of basic services such as health care and education and results in a growing cohort of unemployed or underemployed workers because the economy cannot create sufficient jobs to employ new entrants to the job market. It is sobering to realize that, in 1949, Egypt had 19 million people and now, just over 50 years later, the population is approximately 70 million. The Egyptian Government has made stabilizing population a top priority. Furthermore, Egypt is still at risk from a number of endemic diseases, especially hepatitis C, Rift Valley Fever and HIV/AIDS, all of which result in premature deaths, reduce productivity and require costly treatment.

Democracy / Governance:

Egypt's overall political situation remains stable but the trade-off is that continued tight government control has resulted in limited political and civil freedom for Egyptians. There are calls for reform, including those from President Mubarak who has called for revision of laws related to elections, political parties and professional syndicates, and from the National Democratic Party (NDP) which has proposed a reform agenda which includes abolishing State security courts and hard labor as a punishment, and appointing women judges. A new Human Rights Council was recently established. There may also be some loosening of controls on media. While the pace of reform undoubtedly could be faster, there are encouraging signs that justify some expansion of our DG programming.

Environment:

Egypt's environment has been under attack for many years now. Burgeoning population has put pressure on water supplies and has created urban problems such as poor sanitation, both sewerage and solid waste, and air pollution. Air pollution is caused by vehicular emissions, particulates and lead. Cairo, in particular, is a very crowded city with a large number of gasoline burning buses, vans and cars. The lead smelting industry has been concentrated in some of the more densely populated areas of the city, resulting in some of the world's highest airborne lead levels. This impacts on the physical development of Cairo's children and increases the incidence of respiratory illnesses. The USAID program has tackled these problems by introducing clean-burning compressed natural gas vehicles and bakeries (practically every street corner in Egypt has a bakery because bread is the major staple, especially for the poor). A side benefit of these programs has been to reduce Egypt's dependence on imported gasoline—Egypt has extensive natural gas reserves but has to import much of its petroleum needs. USAID has also been working on moving lead smelters out of downtown Cairo and updating the industrial processes and equipment used in the smelting facilities. This year, the Cairo governorate and Egypt's Ministry of Petroleum were the joint recipients of the U.S. Department of Energy's annual International Clean Cities Award. The award recognized Cairo's efforts to improve air quality, largely reflecting work that was supported by USAID programs.

FUTURE PROGRAMMING DIRECTIONS

In the period 2002–2003, USAID and the State Department conducted an in-depth review of USAID's Egypt program. As a result of this review, decisions were taken to focus the program more strongly on the following: economic, political and education reform; health needs in rural and urban slum areas; and village-level infrastructure development.

Economic Growth:

The revised USAID economic program is more focused on financial and trade reform and will promote competitiveness in agriculture-based industries. The program continues to support job creation and increased productivity. We are using appropriate technical assistance, commodity imports and cash transfers to support macro-policy reform to achieve our objectives in this sector.

The cash transfer Development Support Program will pursue reforms to the financial sector to modernize it, give a greater role to the private sector through privatization, and encourage domestic and foreign investment. Related technical assistance to institutions supporting international trade, investment and company formation will support enterprise formation for export production. Our program supports the GOE's review of the commercial code and other laws to create a legal framework which will facilitate private enterprise. Activities include modernization of the Company Law and other commercial codes, continued support to the reorganization of the Ministry of Foreign Trade for WTO compliance, customs and ports reform, reduction of technical barriers to trading in high value markets, and expansion of information and communication technology including e-government, without which Egypt cannot compete in the global marketplace.

Assistance for financial sector modernization will emphasize banking sector reform, microfinance development, monetary policy strengthening, development of real estate finance, insurance market modernization and development of mechanisms for sustainable private financing of infrastructure and environment-friendly business.

Finally, the program is raising incomes for average Egyptians. USAID works through smallholders and related trade associations to increase product quality, reduce post-harvest losses, and helps Egyptian farmers meet global standards for their crops. Our program promotes the adoption of improved environmental management in water and biodiversity conservation to promote tourism, and control of industrial pollution.

Education:

When USAID's strategy was originally formulated in 1999, prospects for progress on reform in the education sector were not encouraging. At that time, we decided that we would close out the education portfolio in 2003. The environment has changed so significantly that the program will continue through the strategy period and funding has been increased from a total of \$47 million to approximately \$280 million. Changes have occurred within Egypt, and in the foreign policy environment, as a result of the publication of the Arab Human Development Report highlighting deficiencies in education in the Middle East, and the prominent role given to mod-

ern education systems by the Middle East Partnership Initiative and by broader U.S. efforts to combat terrorism.

USAID/Egypt's education program builds on the success of the model piloted in Alexandria and will replicate it in six additional governorates. This model focuses on decentralized decision-making authority, increased community involvement, and improved school performance. We are expanding access for girls by providing scholarships, establishing multi-grade classrooms to allow girls who have not been enrolled to re-enter the formal system, providing non-formal education to out-of-school youth, constructing new schools where long commute distances limit girls' attendance, and by motivating parents through awareness campaigns to support education for their girls.

Education quality remains problematic in Egypt. Even if a child completes school, he or she may not have learned what is needed to succeed in the workplace. To address this, our program is improving instructional quality by strengthening education management, establishing standards at teacher training colleges and by improving assessment of both teachers and students. Teacher training systems will also be improved and incentives introduced to reward teacher performance. In support of GOE efforts, learning materials are being developed, reproduced and distributed for both formal and non-formal education institutions. The Minister of Education has requested our assistance to work on curriculum in several specific areas, and already we are assisting the Ministry on curriculum related to English language instruction and may support in the future math and science curriculum development.

Alam Simsim, the Arabic version of Sesame Street, was initiated through a USAID/Egypt program, and is now broadcast in 22 countries throughout the Middle East. In Egypt alone, eleven million children regularly watch the series.

The final key element in our approach to assisting Egyptians to reform their education system is to cultivate community support for schools and education. Communities will be mobilized around issues such as school governance and education quality. Community support will ensure success of activities such as scholarships, new school construction and literacy and life skills classes.

Health:

USAID's revised health program is extending proven interventions to new priority governorates and ensuring that they become sustainable. The program continues to improve quality of care, increase demand for family planning, and serve hard-to-reach groups and under-served geographic areas. Quality of care is being improved through pre-service and in-service training for clinic staff and by renovation of public and NGO-run clinics. Given the GOE's goal to slow current population growth to replacement levels, USAID is supporting voluntary behavior change communication through mass media and interpersonal counseling.

Our revised program continues to help improve the health of mothers and children. USAID is contributing to improved maternal health through safe birth protocols and better family planning delivery (child spacing is vital in improving infant and maternal health). These approaches have been used in Upper Egypt and have reduced maternal mortality by 59% since 1992. We will continue to support programs to reduce childhood illnesses including polio eradication.

USAID has helped the GOE build a nationwide system of disease surveillance, reporting and outbreak control. This has involved capacity building through training, definition of case standards and methods of investigation, improved infection control, improved laboratory practices and improved surveillance at the district level. We will continue these activities until the entire population of Egypt is covered by a disease surveillance system, currently projected for 2006.

Democracy / Governance:

While there have been some improvements in loosening government control and opening political space, Egypt still, as DAS Satterfield has stated, restricts basic political and religious rights and relies on the Emergency Law. This creates a challenging environment for promoting democratic reform. Furthermore, because of the way the USAID program has developed in Egypt, we are constrained by having to obtain GOE agreement on all programs we wish to implement. This restricts the kinds of activities we can engage in, especially for example working with opposition parties and human rights activists. In addition, some Egyptian NGO groups, including human rights groups will not accept donor funding for fear of being arrested and held by the GOE as happened to noted civil society proponent Saad Eddine Ibrahim.

Within the constraints I have just presented, USAID will take advantage of openings as they occur. We plan to support the development of a more competitive political process. We plan to provide assistance to the Egyptians to reform the electoral

and political party laws and improve election administration, including voter registration and education and training of candidates. Activities will also promote more transparent, accountable government, improve citizen participation and involvement to increase satisfaction with their government, and support increased benefits to underserved populations including Coptic communities. Finally, USAID is assisting in the improvement of the administration of justice by supporting GOE efforts to reform its judicial system by streamlining court procedures, enhancing transparency, reducing opportunities for corruption, training judges, law students and court personnel.

Conclusion:

The USAID/Egypt program has always been a program that has evolved in response both to political and development priorities. As I have stated previously in this testimony, our initial goals in opening the program in the 1970s were to rehabilitate infrastructure damaged by the war with Israel and construct adequate infrastructure to meet the needs of Egypt's population. As those activities were underway, we began to address structural issues in the economy and in social sectors.

As a result of the development of Egypt and, to some degree, the successes of our programs, we are now entering a new phase of assistance. When we put together our strategy in 1999–2000, our vision, in partnership with Egypt, was to transform our relationship with Egypt to one that was more focused on trade and partnership and less on assistance. The latest evolution in our program, oriented increasingly to reform of the economy, education and the governance arena, supports the continuing development of Egypt. There have been enough significant openings in recent years to justify such an evolution.

Where do we go from here? One of the issues we are currently examining at USAID is how to provide support regionally to our smaller missions. We are grappling with the balance of security and the costs and danger that adds to our programs and the vital role of economic assistance in contributing to the stability of the region. We need to develop models that allow us to provide the technical and support backstopping needed to all these programs, which are vital to U.S. foreign policy goals but where it may be too dangerous to locate staff in large numbers. An obvious candidate to base technical and other staff to support our Middle East missions is Cairo. This will allow us to leverage the expertise we have developed through the years of our development work in Egypt. We are thus looking at several models that will ensure that our programs in the region will be adequately supported. As we come closer to defining our approach, we will consult with you on these issues.

I appreciate your taking the time to hear about USAID's program in Egypt and I welcome any questions you may have.

Mr. CHABOT. Before Ambassador Likins is recognized, I think we have several items to be taken care of on the Minority side. So, Mr. Ackerman, you are recognized.

Mr. ACKERMAN. I have a unanimous consent request. In the interest of saving time, I do have an opening statement, but if the Subcommittee would indulge me, I ask unanimous consent to place the statement underlining the importance of the United States-Egyptian relationship and raising a couple of concerns in the record directly after that of Ms. Ros-Lehtinen's.

Mr. CHABOT. Without objection, so ordered.

The gentleman from California is recognized for making a brief opening statement, or the other gentleman from California.

Mr. LANTOS. Thank you very much, Mr. Chairman.

Mr. Chairman, few states in the world inhabit a strategic environment more secure than Egypt's. Egypt shares land borders with three states, Libya, Sudan and Israel, and it is at peace with all of them. In recent months, Egypt's security environment has further improved dramatically as Libya divested itself of its weapons of mass destruction.

Despite this changed security environment, Cairo continues to acquire significant new military capabilities with United States taxpayer money, capabilities for which there is little or no obvious

military necessity. For example, the Egyptian Navy created 11 new battle units and ordered advanced Harpoon II missiles and fast-attack vessels from the United States despite no obvious maritime threat. Egyptian military exercises are ominously geared toward an Israeli enemy that does not exist. This buildup is not only puzzling, Mr. Chairman, but in my view, it is a policy choice with seriously damaging implications both for Egyptian society and for regional stability.

Illiteracy in Egypt is 40 percent, a majority of women over the age of 15 cannot read or write, per capita income is barely \$1,000, and yet Egypt is pouring its money into cutting-edge military equipment rather than into education.

What concerns me is that the United States has become an enabler of this misallocation of priorities and funds. For years now we have reflexively been approving \$1.3 billion in annual military aid for the Egyptian government while we appropriate less than half that amount for economic and developmental support. Since 1999, we have decreased economic aid annually while holding military aid steady. I assure you, we are doing the Egyptian people no favor with this approach.

And what exactly does the United States get for our lavish support of the Egyptian military, over \$30 billion since 1979? Precious little. When the United States has really needed its support, the powerful Egyptian military has been AWOL. Imagine how politically valuable an Egyptian military presence would have been and still would be as a member of the Coalition in Afghanistan. Imagine how politically valuable an Egyptian military presence would have been and still would be as a member of the Coalition in Iraq. And although Egypt has a primary stake in defeating fundamentalism, which is an important feature of both of these conflicts, the Egyptian government has said, sorry, we have no dog in that fight.

And that is on its best days when it isn't viciously criticizing our policies. In fact, Egypt consistently opposes most important United States regional policies. Despite an exceptionally gracious invitation from President Bush, President Mubarak snubbed the recent G-8 summit, and Egypt has been a consistent critic of the Broader Middle East and North Africa Initiative. When Libya made its historic announcement that it would rid itself of weapons of mass destruction, Egypt unleashed its influential media against Muammar Qadhafi.

If Egypt isn't going to support us politically or militarily, we can nevertheless serve Egypt's interest and our own by supporting educational, economic and political development that contributes most effectively to Egyptian stability. And we can do this, first of all, by correcting our own mistaken approach to Egyptian foreign aid. I intend to do exactly that. I intend to support the Egyptian people by introducing legislation to phase out military assistance for Egypt over the next 3 years, transforming the 1.3 billion annual gift to the Egyptian military into assistance for improving the quality of life for the Egyptian people.

However problematic Egypt may be as an ally, our Nation retains a profound interest in Egypt's stability, and we must do all we can to promote Egypt's progress as a free and prosperous na-

tion. I cannot escape the conclusion that satisfying the appetite of Egyptian generals is exactly the wrong way to achieve that goal.

Thank you, Mr. Chairman.

Mr. CHABOT. Thank you very much.

And it is my understanding, Ambassador Likins, you have not been formally introduced yet. Let me do that now.

Ambassador Rose Likins is the Principal Deputy Assistant Secretary of State in the Bureau of Political-Military Affairs. Ambassador Likins has served as a consular officer at the U.S. Consulate General in Monterrey, Mexico; as Chief of the Political Section of the U.S. Embassy in Paraguay; and as Deputy Chief of Mission at the U.S. Embassy in Sofia, Bulgaria.

From August 2000 to June 2003, Ambassador Likins served as the U.S. Ambassador to El Salvador, and we welcome you here this afternoon and look forward to hearing your testimony at this time.

STATEMENT OF ROSE M. LIKINS, PRINCIPAL DEPUTY ASSISTANT SECRETARY OF STATE, BUREAU OF POLITICAL-MILITARY AFFAIRS

Ms. LIKINS. Thank you very much, Mr. Chairman, and thank you all for the opportunity to be here today. I would like to spend a few minutes addressing the benefits of our strategic relationship with Egypt, our security assistance objectives, military exercises, and Egypt's contribution to the war on terror, major weapons releases and our future outlook.

During the last 25 years, Egyptian and Americans' shared interests and cooperation have broadened significantly. Essential to this relationship is the military-to-military cooperation between the United States and Egyptian Armed Forces. The United States receives a range of strategic benefits from our security assistance to Egypt. This assistance has helped to facilitate peace between Israel and Egypt for the past 25 years and has secured Egypt as a strong partner in the global war on the terrorism.

Security assistance funding for Egypt enhances United States security. It helps Egypt to participate as a Coalition partner, to modernize its Armed Forces, to provide force protection for U.S. military forces in the region and to maintain U.S. access to the Suez Canal and key overflight routes used to support our forces in the region.

Egypt is the second largest recipient of foreign military financing, trailing only Israel. The fiscal year 2005 request for Egypt consists of \$1.3 billion in military financing and 1.2 million in IMET. The IMET objectives include the professional development of Egypt's military, fostering military relationships that improve interoperability and coordination, and reinforcing the concepts of civilian control of military and democratic principles.

The annual 1.3 billion in funding helps to facilitate Egypt's participation as a Coalition partner in area operations. Accordingly, Egypt continues to replace its Soviet-era equipment with more capable and sustainable United States equipment. Increasing the amount of United States equipment in Egypt's inventory improves Egyptian maintenance and operational reliability, thereby enhancing its value as a Coalition partner.

Bright Star is our largest military training exercise in the Middle East and is the signature Egyptian event. It is a biannual military exercise that occurs in the fall of odd-number years. Bright Star 2001 achieved an unprecedented level of cooperation and training. France, the United Kingdom, Italy, the Netherlands, Greece, Germany, Kuwait, Jordan and the UAE participated with the United States and Egypt; more than 73,000 soldiers participating including 18,000 U.S. troops. Unfortunately we had to cancel Bright Star in September 2003 due to U.S. operational constraints, but we have promised to renew the exercises in 2005.

Egypt has been a staunch supporter of the global war on terrorism. Egypt agrees with the United States that international terrorism remains the single biggest threat to peace and stability in the region. In March 2004, General Abizaid noted some of the contributions that Egypt has made to support the global war on terrorism, including the grant to increase overflight rights and Suez Canal transits that were vital to our Coalition victories in Operation Enduring Freedom and Iraqi Freedom. Egypt has donated over 60 tons of humanitarian aid to Afghan reconstruction, and they deployed a field hospital to Afghanistan that has treated over 15,000 patients and contributed demonstrably to achieving the goal of Afghanistan's medical infrastructure. We are currently in dialogue with Egypt to determine how they can best assist in helping achieve Iraq stability.

Weapons releases remain an interest we know is a great issue with this Committee. I want to assure you that we carefully review each potential weapons release. When deciding whether to release a system, we take into account the following factors: Does the proposed release advance U.S. strategic interests; does it advance regional stability; does it advance the global war on terrorism; does it advance Coalition operations; does it advance U.S. force protection. Obviously the nature of the threat to be addressed and the capabilities that will be improved are also key considerations.

There are a number of releases that have occurred in recent years, and rather than detailing those, I am prepared to answer any questions that you all might have about them.

Finally, I would just note that we have a 25-year legacy of strong United States-Egypt military-to-military operations that we want to continue to advance because this relationship advances U.S. strategic interests. It is good for us to have a strong strategic partner in this region. Egypt has been a major non-NATO ally since July, 1996, and a cornerstone of U.S. Government regional stability objectives in the Middle East. Egyptian support for OEF, OIF, and the Roadmap are some of the many tangible ways Egypt supports United States policy. As we confront today's challenges from Iraq to the global war on terrorism, to the Israeli-Palestinian conflict and Africa's stability, it is clear that there has never been a time that our partnership with Egypt mattered more.

Thank you very much.

Mr. CHABOT. Thank you.

[The prepared statement of Ms. Likins follows:]

PREPARED STATEMENT OF ROSE M. LIKINS, PRINCIPAL DEPUTY ASSISTANT SECRETARY
OF STATE, BUREAU OF POLITICAL-MILITARY AFFAIRS

MILITARY AFFAIRS

Our bilateral military relations with Egypt are comprised of joint exercises, broad coordination on regional issues, and a \$1.3 billion annual military assistance budget. Foreign Military Financing and International Military Education and Training assistance have helped to modernize the Egyptian military through training and weapons sales that have created a sound defensive force. We also maintain open lines of communication with the Egyptian military about the variety of challenges that it faces, from international peacekeeping operations to co-production of certain weapons systems. Security assistance is the bedrock of our political-military relationship and these strategic benefits provide a valuable return on investment for the American taxpayer.

Interoperability, Coalition activity

Realities of the modern battlefield require interoperable communications systems. Interoperability would enable us to increase our mobility in the region, thereby furthering a critical USG national security objective. We attempt to transfer technology to the Egyptians that enable such communication. Such transfers can support peacekeeping operations and help to advance coalition efforts in the region, while continually improving the Egyptian military's level of professionalism. As part of the FY 2005 budget, we have requested \$1.2 million in International Military Education and Training (IMET). These funds allow Egypt to send students to U.S. military education courses, which foster one-to-one military relationships that improve interoperability and coordination.

Egypt's military modernization programs are in a "middle stage" of progress; we provide substantial support, but it is important for the GOE to build fully upon the support already provided, commit to bilateral agreements that will help it to modernize its capabilities, become fully interoperable with U.S. forces, and raise U.S.-Egyptian military relations to an even more cooperative level.

We discuss these and other issues at the annual Military Cooperation Committee (MCC) meetings, which are chaired by the Office of the Secretary of Defense. These meetings are a core element of the ongoing strategic dialogue between us and were most recently held in Cairo in December 2003. This last MCC was indicative both of the good relations we enjoy, and of the challenges of working together in a truly interoperable environment.

Weapons Release

The \$1.3 billion in annual Foreign Military Financing that we provide to Egypt is divided amongst cash flow payments for ongoing programs, "follow-on support" (maintenance), and new acquisitions. The Defense Security Cooperation Agency (DSCA) manages the day-to-day implementation of this account. DSCA holds quarterly budget review meetings in Washington and Cairo to ensure that all standard requests are being met. DSCA also manages a list of sensitive weapons systems that the GOE would like to procure and that require both interagency and eventual Congressional approval.

The interagency community routinely considers release of sensitive weapons systems to the GOE through the National Disclosure Policy Committee (NDPC). A sensitive weapons system can only be released if there is consensus support for release of that system. When deciding whether or not to release, we take into account the nature of the threat (strategic/tactical) to be addressed, the capabilities that will be improved, the value of each system's release to U.S. national security and foreign policy goals, and the impact on Israel's Qualitative Military Edge (QME). We are currently awaiting your committee's approval for the potential upgrade of an air-to-air missile.

Peacekeeping Operations

Sustaining international stability through peacekeeping operations is a key pillar of Egypt's national defense policy. Egypt has committed troops to a number of PKO operations in the past, including places as diverse as sub Saharan Africa (Angola, Liberia, Mozambique, Rwanda), Asia (East Timor), and Europe (Sarajevo and Georgia). Egypt's deployments in support of UN and NATO goals are vital to the effectiveness of those missions. Egypt has also deployed a field hospital to Afghanistan in support of reconstruction efforts there. With hopes of an upturn in Sudan's reconstruction efforts in the wake of formal peace accords, Egypt has indicated its willingness to play a significant role in any PKO for Sudan and is currently in the process of coordinating its contributions with UN staff in New York.

Training/Bright Star

Bright Star is our largest military training exercise in the Middle East and is a GOE signature event. DoD cancelled it in September 2003 due to op-tempo pressures and the GOE took the decision gracefully; Egypt has even cooperated in reformatting Bright Star to feature a smaller U.S. footprint. We have promised to renew the exercises in 2005. In fact, we would like to see Iraqi participation (at least observer status) in Bright Star 2005 (September timeframe). We also provide training, through the International Military and Education Training program, of Egyptian officers that continues to promote a deeper professional connection between our two militaries.

Multinational Force and Observers (MFO)

Egypt and Israel continue to express appreciation for this multinational contribution to a peacekeeping regime stemming from the Camp David Accords. These have been the most successful peacekeeping, peace monitoring, and peace-verification activities in the region, and we are grateful to all the participating countries for their efforts throughout the years. We recently reduced our contribution from 865 personnel to 687 but continue to contribute significantly to the MFO's effectiveness.

Mr. CHABOT. And I will recognize myself for 5 minutes for the purpose of asking questions.

First of all, Mr. Kunder, the U.S. Congress approved \$300 million in direct economic aid to Egypt and \$2 billion in loan guarantees to offset money lost to Egypt from the war in Iraq. Can you tell us what Egypt intends to buy with the \$2 billion? And recently, USAID Cairo was unable to give us that information. Ambassador David Welch said that the grant rewards Egypt for promised and realized—with an emphasis on realized—reforms in the trade, fiscal and monetary policy. Have they been realized? And if so, how?

Mr. KUNDER. Thank you, Mr. Chairman. The section—the two amounts of money you are referring to are the \$300 million and the up to \$2 billion in loan guarantees in the Iraq supplemental funds appropriated last year. The \$300 million has been obligated, and there were a number—I can give the exact details of the conditions that were put on that money to the Committee, if that would be useful. But that money has been obligated and disbursed to the Egyptian government contingent upon a number of economic reforms that were negotiated with the Egyptian government. The additional up to \$2 billion in loan guarantees has not yet been disbursed. The negotiations are continuing with the Egyptian government. So the \$300 million has been disbursed at this point, but the remainder of the money is still in negotiation.

Mr. CHABOT. Ambassador Satterfield, let me turn to you. You mentioned in your testimony that certain personnel and equipment restrictions stemming from the Israel-Egypt peace treaty prevent effective action against the tunnels—referring to the Gaza tunnels. Can you tell what Egypt really needs to effectively combat these tunnels?

Mr. SATTERFIELD. The Egyptian military and security forces working on their own and working on increasing cooperation with Israeli security forces have been addressing over the course of the past year the phenomenon of the Raffa tunnels. These tunnels pose a challenge not only to Israel's security and to the stability of Gaza, but also pose a challenge to Egypt. These tunnels are not used only for the smuggling of weapons, they are also used for the illicit entry into Gaza of a large number of other forbidden goods and perhaps persons as well.

It is much in Egypt's interests as well as Israel, as well as Palestinian interest to shut down these very long-term smuggling operations. The problem is complex. It is complex in the extreme for Israel. It is complex in the extreme for Egypt to address. These tunnels originate most often inside residential areas. The area is densely populated on both sides of the border. What Egypt has been doing is clearing portions of the border in the Raffa area. They have been aggressively pursuing tunnels; 33 were detected and closed during the course of 2003, but more needs to be done.

With respect to the limitations imposed by the treaty, there are zones with restricted force levels not just in terms of equipment, but also personnel who may be in certain areas along the Gaza-Egypt border. Israel and Egypt are discussing this issue now in what has been a constructive, very detailed and productive fashion. And frankly, I would leave it to them to continue this process which we believe has every prospect of leading to a satisfactory resolution.

Mr. CHABOT. My final question. I understand that Egypt denies that it is buying long-range missiles from North Korea. Why does Egypt need a ballistic missile program at all? What problems does Egypt face that it would need to have such missiles in the first place?

Ms. LIKINS. The Egyptian government is well aware of our concerns about proliferation of these types of missiles, and we have had a number of conversations over the years with them about that. And as you yourself noted, they completely deny any intention to acquire those systems. I think they would agree with you that this is not a program that they intend to acquire or institute.

Mr. CHABOT. My time has expired. I believe they are going in order of the way people got here. And I guess you are next, the gentleman from California, Mr. Berman.

Mr. BERMAN. Ambassador Likins, good to see you again since San Salvador.

On this last question, are you—in response to the Chairman's question—saying there is no evidence that Egypt is seeking to procure either missiles that, say, are covered by the missile technology control regime in terms of range and throw-weight or production capabilities to produce such missiles? In other words, that be it from North Korea or from some other source, as far as we know, you can state to the best of your knowledge that there is no effort to procure such a capability?

Ms. LIKINS. No, sir. I certainly don't mean to mislead you. And let me be clear that this is not our area of responsibility. It falls to our colleagues in the Nonproliferation Bureau. What I can tell you, that as a matter of general policy, we have communicated very clearly to the Government of Egypt our concerns of proliferation of these missiles and so they understand categorically what our position is. We have had a history of discussions with them about this. I wouldn't in this forum and as a matter of operational responsibility want to address the intelligence of what is or isn't out there, and I would be happy to—

Mr. BERMAN. What is Egypt saying they are doing in this area apart from what the intelligence reveals?

Mr. SATTERFIELD. Egypt has committed not to acquire MTCR-class missiles.

Mr. BERMAN. They are a proclaimed adherent at least.

Mr. SATTERFIELD. In terms of acquisition of technologies from North Korea or any other provider, Egypt has said it is not in the process of acquiring such technologies. We watched this issue extremely closely.

Mr. BERMAN. Thank you, Mr. Chairman.

Mr. CHABOT. Gentleman's time has expired.

The gentleman from New York is recognized.

Mr. ACKERMAN. Thank the panel for their opening statements.

The Chair referenced the tunnels, which Ambassador Satterfield said was very, very important. Egypt has one of the larger militaries in the area, one of the largest military budgets in the area. How important is the Egyptian military to us if those tunnels are to be controlled?

Mr. SATTERFIELD. Congressman, we certainly looked to Egypt to play a major role both on its own border with Gaza as well as in providing the assistance in the form of training and technical advice that Egypt has openly discussed with the Palestinians and with the Government of Israel in the context of a Gaza disengagement, Gaza withdrawal, as Prime Minister Sharon has prepared. There is an extremely important role for Egypt.

Egypt is a sovereign country. It is responsible for maintaining the integrity of its borders. The smuggling operations which have been traditionally conducted across the Gaza-Egyptian border are challenges, I noted to the Chair, to both sides of that border: Palestinians and Israelis on the one and Egypt on the other. It needs to be shut down, and we would look to a major commitment of resources by the Government of Egypt working with the Government of Israel and with others who support Gaza disengagement in this regard.

Mr. ACKERMAN. It is my understanding that both the Israelis and the Palestinians have agreed to ask for an exception under existing arrangements between them so that the Egyptian military might be able to operate on both sides of the border when—on Gaza as the Israelis withdraw. Is that accurate, and how important is that for the Egyptian military to be able to participate in that?

Mr. SATTERFIELD. If I could describe our state of understanding of the direct discussions which have taken place. Both the Government of Israel and the Palestinian Authority have agreed to and welcome the presence of Egyptian advisors and trainers in Gaza proper in the context of Gaza disengagement.

With respect to the border area, on the Egyptian side of the Gaza border, Egypt and Israel have had their own direct dialogue on this subject and are in the process of reaching understandings on what type of force disposition would be made there on the Egyptian side.

There is a third element here, which is the Gaza side of that border. Their questions remain to be resolved within the Government of Israel and between Egypt and Israel on the nature of what remnant presence there may be, if there is such a presence, of the Israeli defense forces.

Mr. ACKERMAN. I am asking about the presence of the Egyptian presence.

Mr. SATTERFIELD. Whether there is an Egyptian presence or not on the Gaza side of their border as opposed to in Gaza proper is an issue that will have to be discussed between Egypt and Israel over the course of time to come.

Mr. ACKERMAN. This whole quagmire between the Israelis and the Palestinians is one of the things that is overwhelmingly agreed to, at least by the population in Gaza, is that there be an Israeli withdrawal from Gaza, and that seems to have certainly more than a majority support among the general population in Israel as well. It is one of those agreed to kind of things that has some political difficulty in evolving.

I believe from what I have seen and read that Egypt's General Suleman has risen to the occasion, as has Egypt, the concern is what happens in the vacuum of Israel's withdrawal. And is there some Palestinian Authority legitimate force that can fill that vacuum so there is not a power struggle with Hamas or some other terrorist groups vying for power in the absence of any strength? And that General Suleman in particular has agreed to try to negotiate with all on the Palestinian side so that it is narrowed down that there are three basic agencies, and that the Egyptians would be helping to train the people that would be providing the security in Gaza so that the people on the Palestinian side, the Gaza side, the people in Israel could live in a more secure atmosphere; is that accurate and important?

Mr. SATTERFIELD. It is both accurate and important and critical.

Mr. ACKERMAN. How important is it, from essential to who needs them?

Mr. SATTERFIELD. It is critical to the success of Gaza disengagement and, the day after Gaza disengagement, to the establishment in Gaza of a model of security, political stability, security stability and development. The Egyptian role is regarded by us, by the region, by Israel as essential to this process succeeding. That is why we have offered the very strong support as the United States and in the context of the accord that we have.

Mr. ACKERMAN. The Chair's finger is on the trigger, so I will yield back time.

Mr. CHABOT. The gentleman is very observant.

The gentlelady from Nevada is recognized for 5 minutes.

Ms. BERKLEY. Thank you, Mr. Chairman. I would like to be able to submit my opening statement for the record. So ordered.

I have a number of questions. I agree with you that this is essential, that this strategic cooperation work not only for stability and peace in the Middle East, but throughout the world given the current situation. However, I am less than enthusiastic to pin my hopes on the Egyptians and having the Egyptians coming through, because I quite agree with Congressman Lantos that this is a spotty record at best when it comes to the Egyptian relationship with the Israelis and the Egyptian relationship with the United States of America; although I agree, again, with Mr. Lantos that we have paid handsomely for that relationship and gotten little, if anything, back in return. I am hoping there will be a sea change, and the sea change needs to be now.

There are a number of questions that I have, and those that I can't get to, I would like to submit in writing and have you respond to them if that would be all right.

I would like to direct your attention to the return of Egypt's Ambassador to Israel. As you are well aware, I am sure, after the wave of Palestinian terror nearly 4 years ago, Egypt withdrew its Ambassador in protest of Israel's effort to defend itself against deadly terrorist attacks. The removal of the Ambassador for a period of years clearly runs counter to Egypt's commitment to normal relations with Israel. What is our country's position on having Egypt return its Ambassador to Israel, and when do we believe that move will be facilitated?

Mr. SATTERFIELD. We have strongly urged Egypt to return its Ambassador. We don't believe the withdrawal or moderation in the level of diplomatic contexts serves either country's interest. This is a step that Israel and Egypt themselves discussed at the highest levels, as have we. We very much hope that with the continued improvement in the relationship between the countries—and I would note it is a palpable improvement over the course of the last weeks and months.

Ms. BERKLEY. How do you account for that palpable improvement?

Mr. SATTERFIELD. Both sides see the threats posed to their mutual interests by a continuation or escalation of chaos, violence, disorder, extremism in Gaza, and a further disintegration in the centers of authority, the centers of socioeconomic and political life on the Palestinian side. It is a threat to Israel and a threat to Egypt. Both sides see a common advantage in moving forward in breaking this terrible deadlock downward spiral. And the Israeli Prime Minister's proposal for disengagement in Gaza offers such a prospect. Both sides have welcomed it.

Ms. BERKLEY. Don't you think it would be timely that the Egyptians did something about the Egyptian media and the anti-Semitic tirades that constantly and consistently come out of Egypt? It cannot be a good thing for Egyptian-Israeli relations if you have an entire population incited to violence and hatred.

Mr. SATTERFIELD. I would go beyond your remarks to say it is not a good thing for the United States or for anyone to see this kind of vile incitement continue anywhere around the world. The issue of anti-Semitic and inciting media in Egypt and elsewhere has been a constant theme of our diplomatic engagement at the very highest levels and will continue to be a theme. We have seen some advances, but the problem remains. It has not resolved. And you are quite right. This is a venomous, poisonous process. It affects the mind and spirit of generation after generation and needs to be brought to a close.

Ms. BERKLEY. I appreciate your position on this. Do you have any idea what President Mubarak's position is, because I once had a very unfortunate discussion with him on this very issue where he denied that there was any anti-Semitism, and that Egypt had a free press, which I would debate with him, and he could do absolutely nothing to control it.

Mr. SATTERFIELD. President Mubarak has indeed described the Egyptian media as free and not subject to Egyptian government

control, but he has recognized the negative consequences of anti-Semitic and inciting propaganda or media in his country and elsewhere.

Ms. BERKLEY. Am I out of time?

Mr. CHABOT. You have 23 seconds.

Ms. BERKLEY. Let me direct your attention to the tunnels. I heard some of the questions and answers, but we know that we need Egypt as an ally when it comes to the disengagement in the Gaza. What good is Egypt as an ally if they say that they support the Roadmap if they haven't demolished the tunnels on their side of the border? I am not talking about going into Gaza and demolishing in the territory, I am talking about where the tunnels originate on Egyptian soil. I don't believe there is a prohibition about them doing something about that. Why haven't they, and will they?

Mr. CHABOT. The gentlewoman's time has expired, but you can answer.

Mr. SATTERFIELD. Egypt has been engaged in efforts to find and destroy tunnels, and it has done so in dozens of cases over the past year. This is a complex and difficult challenge for Egypt as it is a complex and difficult challenge for the Government of Israel with all the resources it brings to bear on the Gaza side of the border. This is a process that needs to continue and needs to continue in a manner that is effective as possible and yet minimizes the harm to innocent civilian populations as possible. Obviously, smuggling needs to stop. It is in the interest of both sides that this happen. Egypt has not been silent on this issue.

Ms. BERKLEY. I appreciate you coming in.

Mr. CHABOT. Thank you very much for your important questions.

And I ask unanimous consent that the Ranking Member Mr. Ackerman be given an additional 3 minutes at this time before we conclude the hearing.

Mr. ACKERMAN. I do have two questions, one for Mr. Kunder and one for Ambassador Likins. And I don't know how long they will respond, but I will keep the question part brief, so if we can have unanimous consent for that.

First I want to strongly associate myself with the accurate concerns that were raised by Congressman Lantos, the Ranking Member of the Committee, and the concerns that were raised also by the gentlewoman from Nevada concerning the return of the Ambassador as well as the anti-Semitism that appears in the Egyptian press that, to most of us, the responses from President Mubarak have not really been adequate. He does recognize that it exists, but does claim that the press is free, something that is certainly up to debate.

Mr. Kunder, your statement notes that with regard to democracy and governance programs, because of the way our aid programs have developed with Egypt, we are constrained to having to obtain Egyptian agreement on all our programs. I do understand as a practical matter we do need the consent of the host nation anywhere that we have an assistance program. My question is have we pursued changes with the Government of Egypt regarding democracy and governance activities as recommended by the State-USAID review of the Egyptian program? And if we proposed changes to the Egyptians, what has their response been?

Mr. KUNDER. Thank you, Mr. Ackerman. Working closely with our State Department colleagues, we have proposed to the Egyptian government opening the political system in a number of different ways, and specifically working with non-governmental organizations and other civil society organizations in Egypt rather than totally through the Egyptian government. We had made that proposal several months ago.

We have been waiting for a response, and just within the past several days, we have received a response from the Egyptian government making a number of counterproposals in the area of democracy and governance reform. We are now with our State Department colleagues examining the Government of Egypt's proposals and looking at those as a basis for further discussions in this area. So we have gotten a response back from the Government of Egypt, and we are taking a look at those, analyzing those, and we will be using those to continue the discussion on opening the political process.

Mr. ACKERMAN. Thank you very much.

For Ambassador Likins, who is the Principal Deputy Assistant Secretary For the Bureau of Political-Military Affairs, and I repeat that because I am not sure when is the last time we requested and had somebody from your bureau before us, and we greatly appreciate that, I do have a question for you or an issue you could address. With the demise of Saddam Hussein's tyranny in Iraq, the strategic picture in the Middle East has changed dramatically in a very short time. Our Navy and Air Force, for example, are exerting much less effort in the Persian Gulf due to the lack of no-fly zones or a U.N. embargo to enforce. Similarly, Egypt's security establishment is contemplating the implications of no longer having an eastern front to worry about in defending.

What are the consequences of Saddam's demise for Egypt's strategic picture and particularly for the United States military assistance package? What are the current priorities of this component of our aid to Egypt, and are they under review? And finally, do you anticipate any significant changes in the types of capabilities that we will be working with the Egyptians to develop?

Mr. CHABOT. And the gentleman's time has expired, and I have been called to the Floor, but I am anxious to hear your answer to that question as well.

Mr. ACKERMAN. I ask unanimous consent that the Chairman be allowed to leave the room any time he wants, and that it will be declared that at the end of the answer, that the hearing will be adjourned at his order.

Mr. CHABOT. That is fine. Leave this hearing up to you? I don't know. I am going to run, but thank you very much.

Ms. LIKINS. Thank you very much for the opportunity to answer the question.

I think that the complicated picture we face in the world today, primarily the global war on terrorism, that irrespective of what has happened in Iraq, which we hope will eventually become a source of stability in the region, which arguably is not the case today, but that there is a much more complicated picture in which we need a regional ally with a modern, capable force, and that is the force we are attempting to help Egypt to build.

There are an awful lot of components that go into that. I mentioned earlier in my statement the fact that they are transitioning from an era of Soviet weaponry. So helping them to have modern U.S. weapons systems is to our advantage. It means we can operate more easily with them.

There are practical things that the Egyptian military does for us. The approaches to the Suez Canal. Every time one of our ships transits the Suez Canal, we have protection from the Egyptian Navy. In just the case of January to July 2003, there were 368 such transits. Certainly the ability to overfly Egyptian airspace and being able to refuel at Egyptian facilities on our way to Afghanistan and on our way to Iraq was very important.

In general, I would say there are a range of things: Egyptian participation in peacekeeping, Egyptian participation in joint exercises and in regional exercises. All of those are things are very important to the overall regional stability picture.

In terms of what you can expect in the future, I would tell you that you can expect a continuing effort to modernize this force. We have continued to make notifications to you all of systems that the Egyptian military is interested in acquiring. I think Congressman Lantos mentioned the fast missile boats. Those are particularly related to protecting approaches to the Suez Canal, and that is in our direct interest to be able to have the Suez Canal to be available to us to transit and to be secure while we are transiting the canal. Every one of the systems we evaluate for release to Egypt has a specific link to a mutual and joint objective.

Mr. ACKERMAN. Last part of the question, do you anticipate any significant change in the types of capabilities that we will be working with the Egyptians to develop?

Ms. LIKINS. There are several notifications that have come before you or will come before you in the coming weeks for things that are fairly routine. We have an upgrade of Chinook helicopters. We have the procurement of C-130 aircraft. We have the fast missile boats. Those are not particularly dramatic new developments.

There are a couple of systems we are discussing with the Egyptian military that would be new capabilities. KC-135 refueling, for example, is a capability that we know the Egyptian government is interested in that we are at least at the political level willing to release to them, but conditional on some further agreements that need to occur between Egypt and the United States.

Mr. ACKERMAN. One final question. With the concerns about the spread of Islamic fundamentalism in so many of the countries in the Middle East, how important is the strength of the—what I believe is the largest Arab nation in the region—how important is their military as a deterrent or warning to terrorists that Egypt should not be a target of their aggressive posture to overthrow non-fundamentalist governments?

Ms. LIKINS. We consider it to be absolutely critical.

Mr. SATTERFIELD. Congressman, I would just add to your question, which is absolutely germane to the regional stability we seek to reinforce, to achieve. The issue is does the stability of Egypt matter and does the stability of the Egyptian Armed Forces matter to the stability of Egypt? And the answer to both is yes, it certainly does. The stability of Egypt as a centrist, moderate, pro-Western

country engaged with the West, engaged with its region and around the world in pursuit, broadly speaking, of the kinds of goals which most Americans wish to see advanced, that is extremely important to us. And it is a threat, an obstacle and a challenge to extremism.

Mr. ACKERMAN. It is really very tempting, but at the discretion at the Chair, the hearing is adjourned.

[Whereupon, at 4:35 p.m., the Subcommittee was adjourned.]

A P P E N D I X

MATERIAL SUBMITTED FOR THE HEARING RECORD

PREPARED STATEMENT OF THE HONORABLE SHELLEY BERKLEY, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF NEVADA

Madam Chairwoman,

I want to thank you for convening this hearing. There are few issues in the Middle East that could have as profound or as long-lasting an effect as the U.S. relationship with Egypt. I'm glad that the subcommittee has the opportunity to explore the issue and I'm anxious to hear from the witnesses.

We have before us an historic opportunity—both for Egypt and for the entire Middle East. This is an opportunity to work as an international community to achieve a just and lasting peace between the Israelis and the Palestinians. However, just as the United States and the EU have been called upon to play a role, so too must regional Arab powers, such as Egypt.

Since 1979, Egypt has had the distinction of being the first Arab power to have signed a peace treaty with Israel. With the Camp David Accords, Egypt signaled to the entire world that peace was achievable in a region that had been devastated by constant war and conflict for over 30 years.

Unfortunately, in the time since these first steps, little progress has been made. Despite large amounts of foreign aid, Egypt has failed to modernize its economy, end the influence of Islamic militants in the schools and media, and improve the human rights situation. Incidents such as the controversy surrounding Egypt Air Flight 990 and the involvement of Shaikh Abd al-Rahman in terrorist plots in the United States have only increased tensions. Finally, the airing of the virulently anti-Semitic film "Horse without a Horseman," blessed by the Egyptian government as free from the desecration of religion only serves to fuel suspicions that the government holds anti-American and anti-Israeli sentiments and that there is a strong reluctance to modernize.

Additionally, tensions between Egypt and Israel have increased since the onset of violence four years ago. I'm sure that I join with a number of my colleagues in expressing strong disappointment and anger at Egypt's withdrawal of its ambassador to Israel and subsequent refusal to reinstate him, despite two separate envoys sent by Prime Minister Sharon for that purpose. The 1979 treaty calls for normalized relations between the two nations. A refusal to send an ambassador is a violation of the spirit, if not the letter, of this agreement.

Furthermore, Egyptian criticism of Israeli anti-terrorism and self-defense measures, while at the same time taking few steps to stop the illegal export of arms through the tunnels into Gaza is the height of hypocrisy and inconsistency. The Israeli Defense Forces have located and destroyed over 70 of these tunnels that are in active use. According to Israeli Defense Minister Mofaz, the Egyptian government used to work with Israel to stem the smuggling of illegal weapons, but in the past six-months, has not cooperated to the same degree.

As I stated earlier, Egypt is at a crossroads. I remain optimistic that it can again assume its place as a reasonable and moderating voice for peace within the Arab world. I am pleased with the recent announcement by its government that it will send 100 security personnel into Gaza to help train Palestinian police and help prevent terrorist influence there. However, I remain disappointed that more progress has not been made in the areas of human rights, economic reform, or social justice.

I am anxious to hear from our witnesses today as they offer their insight into this difficult and complicated region.

Thank You

PREPARED STATEMENT OF THE HONORABLE GARY L. ACKERMAN, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF NEW YORK

Thank you Madam Chair, for scheduling today's hearing. Since Anwar Sadat's historic journey to Tel Aviv almost 30 years ago, Egypt has been at the center of Middle East peace efforts and I think it is fair to say that without that trip, peace in the region would have remained even further away than it is. This bold stroke earned Egypt enmity and isolation from the Arab world, but also dramatically altered Egypt's relationship with the United States.

Over the last 25 years since the signing of the Camp David Accords, the U.S.-Egypt relationship has advanced beyond simply being about peace with Israel and has blossomed into an important bilateral relationship in its own right. Beyond our large economic and military assistance program with Egypt, the United States has come to value Egypt's insights and leadership, not only on Arab-Israeli issues, but in our dealings with other Arab nations as well.

But for all the breadth of our relationship, the Arab-Israeli and chiefly the Israeli-Palestinian conflict retains a central place in our dealings with the Egyptians. In this regard, since the beginning of the current wave of Palestinian violence that began in September 2000, Egyptian efforts have sometimes been found wanting. Although Egypt played host to many of the meetings at the end of the Clinton Administration, when peace finally seemed achievable, it looked as though Egypt didn't take the risk for peace necessary to press the Palestinians to engage with the Israelis on an offer that would have led to Palestinian statehood. For many of us, this was not the tradition of visionary leadership that Anwar Sadat began in 1977.

In recent months, Egypt seems to have regained its footing on the peace process by recognizing that Prime Minister Sharon's disengagement plan is a serious opportunity to alter the status quo between Israelis and Palestinians, to move Palestinians one step closer to statehood and Israelis and Palestinians both closer to peace. General Suleiman's shuttle diplomacy between the Israelis and Palestinians seems to have resulted in a fairly extensive set of political and military commitments from both the Israelis and the Palestinians. On the Palestinian side, Arafat appears to have agreed to allow the consolidation of the Palestinian security services down to three; with the placement of these services under a genuine Interior Minister accountable to Prime Minister Qurei; and an Egyptian veto over who will run the three security services.

For Israel's part, they have reportedly agreed to allow Egypt to deploy about 200 security agents to Gaza to help train, supervise and monitor the reestablished Palestinian security forces. Discussions are also occurring about an Israeli commitment to a cease-fire in Gaza and the possible creation of a safe-passage route between the West Bank and Gaza to allow Arafat to leave the Muqata.

In a related development, Egypt and Israel have agreed to allow Egypt to deploy more Egyptian military forces on Egypt's side of the Gaza border to help uncover and destroy the smuggling tunnels used by Palestinians. These tunnels have become a serious security concern for Israel as Palestinian terrorists use them to bring weapons into Gaza. While the Government of Egypt concedes that more could be done on their side of the border, they have also complained about the limitation contained in the Camp David Accords on their troop deployment along the Gaza border. Now that this has been resolved I hope we will see enhanced and sustained efforts by Egypt to curb the smuggling.

Madam Chair, no discussion of U.S.-Egypt relations would be complete without some mention of economic and political reform in Egypt. Since 1985, U.S. law has required that Egypt "undertake significant economic reforms which are additional to those which were undertaken in previous fiscal years" as a condition of receiving cash transfer assistance. While we continue to provide Egypt with substantial cash assistance each year, its efforts at economic reform have been uneven. The long awaited float of the Egyptian pound came in January of last year but in actual operation it looks like devaluation rather than a float with the Central Bank of Egypt intervening over the course of the year to try and prop up the price. This has sustained a dual conversion rate for the pound, an official rate and a black market rate, although the difference between the two has narrowed significantly.

The insistence by the Government of Egypt on going slow on economic reform has continued to discourage foreign direct investment, a key input if the Egyptian economy is to grow at a rate that will lower unemployment. The go slow approach has also led to a downgrading of Egypt's credit rating by two international credit rating firms. Clearly Egypt will have to do more on this front, for its own sake.

On political reform, it was disappointing that Egypt chose not to attend the G-8 Summit last week, where political reform in the region was a major topic. Still Egypt has recently been saying all the right things about reform, although not much

seems to be happening of late. The energy and enthusiasm for reform that emerged after the National Democratic Party's conference last year seems to have dissipated with opposition parties charging that the NDP has not consulted with them on the next steps in the reform process as promised. More recently, Dr. Osama El Baz, President Mubarak's Political Adviser, writing in *The Forward* described Egypt's and the Arab world's support for reform and cited in particular Egypt's achievements and the Alexandria Declaration issued last March. While Egypt has taken some steps for which they are to be commended, I'd be more comfortable with the Arab world's support for reform if the recent Arab League summit had simply endorsed the Alexandria Declaration rather than the broad and generic statement on reform that they chose to issue from Tunis.

Madam Chair, our relationship with Egypt will remain central to achieving peace in the region, and while there will be disagreements about pace and tactics, I have no doubt that we share the same goals. There is a great deal to discuss today and I look forward to hearing from our witnesses.

RESPONSES FROM DAVID M. SATTERFIELD, DEPUTY ASSISTANT SECRETARY, BUREAU OF NEAR EASTERN AFFAIRS, UNITED STATES DEPARTMENT OF STATE, TO QUESTIONS SUBMITTED FOR THE RECORD BY THE HONORABLE HENRY J. HYDE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS, AND CHAIRMAN, COMMITTEE ON INTERNATIONAL RELATIONS

Question:

Why has the privatization program taken so long to complete? What other reforms could the Egyptian government implement in order to fulfill the requirement for new economic reforms included in the annual provision in the foreign operations appropriations bill?

Response:

The government's privatization program has been slowed by concerns about the impact of privatization on unemployment and a desire to obtain high sale prices for state assets. The poor quality of some of the remaining state assets, recession-type conditions in Egypt, and foreign investors' skepticism about investing in emerging markets in general and the Middle East in particular, also have played a significant role. In the banking sector, the high level of non-performing loans and the need to restructure the state-owned banks have also been cited as reasons to delay privatization. However, recent empirical studies on privatization have demonstrated that many of these concerns are unfounded. For instance, although privatization may lead to a short-term rise in unemployment, the greater involvement of the private sector in the economy following privatization boosts employment over the longer-term. We continue to raise the need for more rapid privatization with senior Egyptian officials.

Further development of the financial sector remains one of the most important reforms that the Egyptian government needs to undertake. The efficient intermediation of capital between borrowers and savers is a key to any market economy. With a banking sector dominated by state-owned banks, and underdeveloped equity, bond, and insurance markets, however, viable private sector firms have been deprived of the capital necessary to grow and sustain operations. In order to provide Egypt with incentives to reform its financial markets, we have tied \$300 million in FY02 and 03 ESF to improvements in this area. We will continue to discuss with the Egyptian government additional reform measures that should be pursued. Customs and tax reforms are two additional areas that are of major interest to Egyptian companies and foreign business alike. Reform legislation in both areas is slated to be on the agenda for the parliamentary session that begins in November.

Question:

Given that 900,000 young people leave school to join the market each year, and currently more than 3 million graduates are out of work, is our aid to the Egyptian government doing anything to help create new jobs for these voting Egyptians?

Response:

USG assistance to Egypt promotes job creation in ways that span the economic spectrum, from micro-enterprise and agribusiness development to regulatory and policy reform and other actions necessary for increased private sector investment. With over 1000 loans made daily, the micro-enterprise program provides employment opportunities to poorer segments of the population. This program now is expanding to incorporate the formal banking sector, a sector that often neglects such financing opportunities without recognizing their growth potential. Through pro-

grams with agribusiness organizations, the USG is creating a stronger foundation for growth in rural areas, providing opportunities for those who otherwise would migrate into towns and cities. USG-assisted producers and exporters were better able to compete in world markets, helping Egypt to achieve a 25% increase in the value of processed agricultural exports over last year. A private sector commodity import program makes available annually \$200 million to private sector firms to import primarily capital goods and production inputs. Over 1,700 Egyptian companies have benefited from this program, and many have reported increased employment as a result.

At the macro level, a policy and regulatory reform program has supported changes designed to promote increased private sector investment. A new program is being developed which focuses on financial sector reform and the opening up of financing opportunities for private sector growth. A customs administration reform program will dramatically reduce the amount of time necessary for goods to clear customs, a major disincentive to firms considering investing in Egypt. USG support for the development of World Trade Organization-compliant laws and regulations has helped to create a more level playing field for international businesses and an environment more conducive to private investment.

Question:

How has Egypt's membership in the Greater Arab Free Trade Agreement (GAFTA), the Agadir process (with Jordan, Morocco, and Tunisia) and the Common Market for Eastern and Southern Africa (COMESA) affected their economy and movements toward reforms?

Response:

A number of states such as Egypt are trying to develop broader networks of trading ties. We view this as a positive trend. However, it is difficult to gauge the impact of these ties on Egypt's economy and its movement towards reform. Trade between Egypt and other countries in Africa and the Middle East is still quite limited, the number of items excluded preferential treatment in the agreements generally is quite large, and the reductions are scheduled to be phased in over a number of years. We do believe that the example of the World Trade Organization (WTO) and its impact on Egyptian reform may be instructive as to how these regional organizations could impact Egypt's economic reform.

Question:

The past year, however, has been characterized by steep cost-of-living increases in Egypt, a decline in the purchasing power of ordinary Egyptians and the floating of the Egyptian pound, which had the most direct effect on Egyptians to the form of significant price increases for basic commodities. These developments came against a background of high unemployment, poverty, and an ill-funded education system, all structural problems directly affecting citizens' lives—How can the US ensure that its loan money is used effectively to address these problems?

Response:

The USG has conditioned the disbursement of loan guarantees on the completion of a series of reforms essential to helping transform Egypt into a more dynamic, market-based economy. These reforms include improving the business climate, complying with WTO obligations, increasing the government's fiscal transparency, and implementing a flexible, market-determined exchange rate. Transitioning to a market economy and increasing private sector participation is the best way Egypt can address problems such as high unemployment and stagnant per capita GDP growth.

Question:

What percentage of Egyptians lives below the poverty line? How is our assistance being used to raise the private sector's share in the economy? What percentage of the private sector of the Egyptian economy exists in the informal sector?

Response:

According to the Government of Egypt and the United Nations Development Program, approximately 20–23% of the more than 70 million people live below the poverty line. While no firm figures on the informal economy exist, several estimates put it at one-third to one-half the size of the formal economy. While a relatively small percentage of the Egyptian economy in financial terms exists in the informal sector, that sector includes a large number of people, perhaps more than 80% of entrepreneurs. The Government says that over six million people, about one third of the estimated work force of 20 million, work on the informal economy. USG programs that support private sector growth and raise that sector's share in the economy in-

clude: an extensive micro-enterprise lending program, agriculture programs; financial sector, customs and trade policy reform programs; and a private sector commodity import program. These programs help individual businesses grow and expand employment opportunities, provide access to production inputs and capital requirements, and help create an overall environment supportive of increased private sector development.

Question:

Why has President Hosni Mubarak refused to name a Vice President? Given President Mubarak's recent declaration that he will not name his son Gamal to succeed him, who do you believe is likely to be the best prospect for succeeding him?

Response:

President Mubarak has said that he does not want to designate a Vice President, who could be seen as a successor, because he does not want to encroach on the right of the legislature to freely choose the next President.

It would be inappropriate to speculate about Egypt's future leadership. We believe that decisions about who should be Egypt's next president are a matter for the Egyptian people and their elected representatives to determine.

Question:

Can you comment on an April 14th report in Al Ahram, the country's leading newspaper, stating that Egypt may abolish its controversial emergency law? Has there been a shift in Egypt's longstanding position that the law is essential to national security?

Response:

There recently has been considerable discussion about lifting the Emergency Law, which has been criticized by national and international human rights organizations. Thus far, however, there has been no change and the Emergency Law remains in effect.

The U.S. has repeatedly pressed the Egyptians to lift the law. We believe the Egyptian authorities can effectively shield Egypt's security and protect the rights of Egyptians without it.

Question:

Ahmed Abu Zeid, chairman of the Egyptian parliament's Arab affairs committee, recently argued that without a serious resolution of the Arab-Israeli conflict, "progress with wider Middle East initiatives is destined to grind to a halt." To what extent is reform in the Arab world "held hostage" to some vague idea of a resolution of the Arab-Israeli conflict?

Response:

While the Israeli-Palestinian conflict continues to be a focus of concern by the governments and people of the Middle East, the need for political and economic reform is widely recognized in the region and was endorsed by a widely attended conference of Arab NGOs and activists held at the Alexandria Library last March and then by the Arab League Summit in May. The U.S., together with our G-8 partners, stands ready to support these regional efforts. The G-8 Summit in Sea Island developed an initial plan of support for reform including the establishment of a Forum for the Future, deepening democracy and broadening participation in political and public life, accelerating economic development and developing educational programs.

Question:

Many believe that US pressure is responsible for the recent establishment of a human rights council in Egypt as well as greatly expanded freedom of the press. Were these developments genuine steps towards reform, and if so, what can the US do to replicate such success in other places in the Arab world?

Response:

The Egyptian Council on Human Rights, which was established by the government in January 2004, has the potential to contribute significantly to reform dialogue within the country. Many prominent Egyptians were appointed to the Council, including members who had previously spoken out against the government's human rights record. We hope to see the Council effectively promote greater respect for human rights.

Human rights remains a key element of the dialogue the U.S. maintains with Egypt as well as many countries in the world. The U.S. continues to press for greater respect for human rights and to encourage and support local efforts to improve human rights conditions.

Question:

The past few months have seen political upheaval in Iran, electoral reform in Morocco, and the introduction of, or amendments to the constitution in Algeria, Tunis and Bahrain. To what extent do reforms abroad affect domestic policy and attitude in Egypt toward reform?

Response:

The Egyptian Government acknowledges the need for reform in Egypt and the Middle East. However, like other countries in the region, Egypt has stressed that reform cannot be imposed from the outside, but must come from internal dialogue and debate—a principle we support. Egypt has worked to develop both that national dialogue, through its outreach to some of the major opposition parties, as well as a regional dialogue, through its endorsement of a regional conference of Arab NGOs and activists, hosted by the Alexandria Library, which issued a bold declaration favoring reform. Egypt also played an important and constructive role in ensuring that the Arab League took up the issue of political and economic reform at the last Summit in May 2004.

Question:

Many opposition groups have been calling for reform of the Egyptian Constitution, particularly by substituting direct popular election of the president from multiple candidates for the present indirect selection by popular referendum of a single candidate chosen by parliament. How likely is this reform to be implemented under the current regime? How vital is this reform to the efficacy of the Egyptian democracy?

Response:

The Egyptian government has not expressed any intent to propose a Constitutional amendment that would replace the current Presidential selection process with the direct popular election of the President.

The U.S. believes that strengthening Egypt's democracy requires a broad range of measures, including electoral, political party, and media reform as well as support for human rights and civil society.

Question:

There are ongoing grave concerns in the Congress about anti-Semitic editorials and editorials which incite to violence in the Egyptian media. When we ask Egyptian officials about the failure to publicly denounce such editorials and take steps to prevent such incitement, they respond by cloaking their answer in non-interference with freedom of the media. Could you please elaborate upon the specific steps being undertaken by the US to address such anti-Semitic propaganda and incitement?

Response:

Since the onset of the second Intifada in September 2000, there has been an increase in anti-Semitic material published in the Egyptian media. We have raised regularly our concerns over anti-Semitic material in the official GOE media with Egyptian officials, and welcomed Presidential Adviser Osama Al-Baz's repudiation of anti-Semitism as a vehicle for protesting policy differences with Israel. Our Ambassador in Egypt, David Welch, has taken an active role in protesting biased media coverage, calling on the press to present well-researched and factually accurate arguments, not those perpetuating anti-Semitic slurs, rumors or unsubstantiated conspiracy theories. Whenever anti-Semitic cartoons or articles appear, the Embassy objects directly to the newspaper concerned and sometimes visits the paper to voice our concerns. Such letters and visits have led to a decrease in the frequency of such materials in most, if not all, papers.

The U.S. strongly protested the entry of a Syrian-produced anti-Semitic mini-series into an Egyptian television festival; although the mini-series was entered, it was not aired publicly and did not receive any awards. Two years ago, when the private satellite channel Dream TV produced *Horseman without a Horse*, a series loosely based on the *Protocols of the Elders of Zion*, the Embassy intervened and Egyptian TV, in response, edited and cut a large portion of the series, contrary to usual practice.

While we strongly support freedom of the media, we believe that the government has a responsibility to emphasize the importance of fairness and accuracy since it appoints the editorial boards.

Question:

Senior IDF officers are reportedly expecting an escalation in terrorism in the Gaza Strip in the near term. Can you comment on a report by an Israeli radio service quoting IDF Southern Gaza Brigade commander Colonel Pinkie Suarez as saying

that a very large quantity of arms, including anti-aircraft missiles and katyusha rockets are in the Sinai Desert for eventual introduction into the Gaza Strip?

Response:

Although there is evidence that some weapons have passed through Sinai, we have no evidence that weapons are being stockpiled in Sinai. The Egyptian government views weapons smuggling as a threat to its own interests and is actively working to combat smuggling. The Government of Egypt coordinates with Israel at the political and operational levels, and is coordinating the potential deployment of military border guards to the Rafah area (limited by the Camp David Accords) with Israel.

Question:

What actions can the Egyptians take to ensure that after a future Israeli withdrawal from the Gaza Strip, Palestinians are prevented from acquiring anti-aircraft missiles and katyusha rockets and other weapons from the sea and from elsewhere?

Response:

The Egyptian and Israeli governments have been working closely to put in place security arrangements that will make Gaza disengagement possible. Border security is inherently a shared responsibility. The responsibility of preventing Palestinian factions from acquiring anti-aircraft missiles, katyusha rockets, and other such weapons will fall primarily to the Palestinian authorities themselves, augmented by Israel and Egyptian efforts.

We believe that more can and should be done to enhance border security, both by the Egyptians and the Israelis; their ongoing dialogue on such issues gives us confidence that maximum effort will be made to stem the flow of such weapons into the Gaza Strip. Egypt recognizes its own interest in keeping Gaza secure. We expect that the Egyptians, in coordination with the Israelis and Palestinians, will continue to vigorously patrol the parts of the border and sea for which they share responsibility. However, we cannot expect any single player to fully secure the borders.

Question:

Egyptians claim that they need more sophisticated technology to detect the tunnels into Rafah. Is Egypt's "trouble" with defeating the tunnels a symptom of a lack of technology or of a lack of political willingness?

Response:

The Camp David Accords limit the types of security forces and equipment that the Government of Egypt (GOE) can maintain along the Sinai/Gaza-Israel border. These limits were mutually agreed to by the Parties to Camp David, yet are open to review and change if the two Parties agree to do so. Egypt can only use more sophisticated military border security units and enhances equipment if the two Parties agree. A bolstered border security presence may indeed make a difference, and Egypt and Israel are discussing ways to enhance border security.

We have seen strong political will on the Egyptian side to combat smuggling through the tunnels. Egypt recognizes that the tunnels are a danger to them, the Israelis, and to Palestinian stability. For this reason, Egypt has both prosecuted captured smugglers and destroyed more than 40 tunnel openings since 2003. In addition, the GOE has actively engaged Palestinian leaders on the question of reorganizing its security services to better police the border area. Egypt and Israel are actively discussing ways to combat tunnel smuggling. We are encouraged by this dialogue, which demonstrates political will.

Question:

Are weapons entering Gaza from Sudan?

Response:

We have not seen any press reports that confirm Sudan as an origin point for weapons smuggling to the Palestinians, and none of the interdicted shipments appears to have originated in Sudan.

Regardless of the origin of the weapons, all shipments entering Gaza must transit Sinai, Israel, or the Mediterranean Sea (Israel does not allow flights into Gaza), and the focus of Israel, Egypt, and the U.S. is on preventing those shipments from entering Gaza.

Question:

We in Congress have had repeated discussions with visiting Egyptian leaders and opinion-makers about the anti-Israel and anti-Jewish editorials in the Egyptian

press. Why has nothing been done about this, in terms of government denunciation or perhaps even restriction of such editorials?

Response:

We strongly condemn anti-Semitic editorials and have repeatedly stressed that such venomous writing only undermines efforts to improve tolerance and promote peace in the Middle East. The Government of Egypt also realizes that such anti-Semitic articles only contribute to hatred, and has at times reached out to halt such rhetoric. We believe the Egyptian government can and should do more to oppose any encouragement or incitement of anti-Semitism.

In December 2002, Presidential Adviser Osama Al-Baz wrote a series of editorials condemning anti-Semitism in response to the airing of a mini-series based on the *Protocols of the Elders of Zion*. Al-Baz clearly disavowed the *Protocols* and strongly argued against using anti-Semitism as a vehicle for expressing policy differences with Israel.

Question:

Some in Congress fear that Egypt is moving beyond mere interoperability and is arming against some "unknown enemy." Is this fear merited or is Egypt buying systems that it might not need?

Response:

Egypt's military has been modernizing its defense capabilities with the assistance of U.S. foreign military financing and sales. Egypt's military modernization program is focused on developing a "capabilities-based" military, one that can adapt to threats as they develop. This planning—codified in its five-year defense plan—is shared openly with the U.S. and is in fact based upon the U.S. Defense Department's "capabilities-based" model.

The U.S. government, both in Washington and in Cairo, closely monitors this assistance to ensure that Egypt is developing a defensive military force that does not threaten its neighbors. In Washington, all weapons release discussions include an analysis of the impact that a release may have on Israel's security. In Cairo, the Office of Military Cooperation routinely coordinates Egypt's military modernization programs with Egyptian counterparts and monitors weapons in the field.

Question:

To what degree has Egypt accomplished the goal of interoperability with American systems?

Response:

We have accomplished a significant yet not complete level of interoperability with Egypt. Our vision of interoperability involves the enhancement of our strategic cooperation with Egypt so that we can work together to accomplish shared goals in the region; this can take many forms, and is exemplified by the rapid access Egypt offers U.S. aircraft for flights over Egyptian territory and the expedited Suez Canal passage offered for U.S. vessels. In addition, Egypt's modernization and transition from former Soviet tactics and equipment to U.S. doctrines, tactics and equipment is estimated to be just over 50% complete. Such efforts demonstrate Egypt's increased—and important—interoperability with U.S. personnel and equipment.

The annual \$1.3 billion in foreign military financing helps to facilitate Egypt's participation as a coalition partner in area operations. Accordingly, Egypt continues to replace its Soviet-era equipment with lower quantities of more capable and sustainable U.S. equipment. Increasing the amount of U.S. equipment in Egypt's inventory improves Egyptian maintenance and operational reliability, thereby enhancing its value as a coalition partner.

Interoperability is in part implemented through the weapons release aspects of our security assistance program for Egypt. All decisions related to weapons release include analysis of whether release of a certain system would impinge upon Israel's Qualitative Military Edge (QME); if it would, we deny release of that system, even if it were to have positive interoperable qualities. Another encouraging sign of our ability to operate together with the Egyptians is the multi-nation Bright Star exercises which Egypt hosts every two years.

